Archer Limited
Annual Report 2019

Archer

Contents

Board of Director's Report
Business overview

Archer Limited (Archer or the company), along with its subsidiaries (the Group), is a global oil services provider with a heritage in drilling and well services that stretches back over 40 years. We employed approximately 5,000 people in our global drilling and well services operations as of December 31, 2019. We deliver high quality products and services, provided by our experienced workforce, with an outstanding record of performance and safety.

Our comprehensive drilling and work-over services include platform drilling, land drilling, modular drilling rigs, drilling fluids, solids control, engineering services, and equipment rentals as well as a select range of support services and products.

Our global well services capabilities includes a wide range of products and services for, well imaging, well integrity, production logging, well interventions, wellbore and blowout preventer clean outs, casing cutting and sidetracks, and temporary or permanent plugging and abandonments, all of which are aimed at improving well performance and extending well life, while reducing overall service operating time. We support our customers in critical processes such as well construction, well completion, well production and well plugging and abandonment. Our differentiated technologies in well bore imaging, well construction and well integrity are an important and integral part of our strategy to support our customers in delivering better wells.

We operate primarily in Norway, the United Kingdom, Argentina and Bolivia, but we also have operations in the United States, Asia Pacific region, the Middle East, Brazil and West Africa.

Archer Limited was incorporated in Bermuda on August 31, 2007, with registration number 40612, as an exempted, limited company and is organised and exists under the Laws of Bermuda.

Archer's registered office is at Par la Ville Place, 14 Par la Ville Road, Hamilton HM 08, Bermuda. Archer is listed on the Oslo Stock Exchange under the ticker symbol ARCHER.NO and our web site is www.archerwell.com.

Principal markets

The company's principal operations are in Angola, Argentina, Australia, Bolivia, Brazil, Canada, Congo, Indonesia, Malaysia, Nigeria, Norway, Saudi Arabia, the United Arab Emirates, the United Kingdom and the United States. We report our results under two reporting segments, Eastern and Western Hemisphere. Western Hemisphere includes our land drilling operations in Latin America, and our investment in Quintana Energy Services Inc., an oilfield service company based in North America. All our other divisions, which primarily operate in Norway and the UK, are reported under the Eastern Hemisphere segment.

We have facilities and offices in Argentina, Australia, Bolivia, Brazil, Canada, Indonesia, Malaysia, Norway, the United Arab Emirates, the United Kingdom and the United States.

Strategy

Our strategy and focus is to deliver better wells and to be the "supplier of choice" for drilling services, well integrity, well interventions as well as plug and abandonments. We aim to achieve this by continuously improving our service and product quality and by utilizing people who demonstrate Archer's values and deliver excellence. This approach enables us to further broaden our reach, both geographically and technically, and it will be the foundation to secure longer term profitable growth. We will continue to pursue opportunities to benefit from economies of scale, to selectively strengthen our geographical footprint and to develop proprietary technologies.

2019 Operating results

Revenue for the year ended December 31, 2019 was $928.6 million or 4.4% higher compared to the revenue in 2018 with increases in Platform Drilling, Oiltools and Engineering. Revenue from our operations in Argentina was negatively impacted by the continued strong depreciation of the Argentine Peso against USD during 2019. EBITDA, (Earnings before Interest and Other financial items, Taxes, Depreciation and Amortization) ended at $94.4 million, an increase of 30.5% compared to 2018. The improvement in reported EBITDA is mainly driven by improvement and increased activity in our Platform Drilling, Engineering, Oiltools and our Fluids operation in Argentina.

Eastern Hemisphere revenue was 18.4% higher than in 2018 with increased revenue in all divisions except Wireline. The increase in activity we saw in our divisions was a consequence of significant contract wins/renewals for our Platform Drilling operation and increased spending by our key customers in the year. Reported EBITDA increased by 25.0% following increased activity in our Platform Drilling, Engineering and Oiltools divisions.

Board of Director's Report
Financial review

Western Hemisphere revenue decreased by 15.9% compared with 2018, reflecting primarily the depreciation of the Argentine Peso against USD over the year, affecting our reported USD revenue in Argentina. Year on year EBITDA from continuing operations, increased by 51.3% due to increased activity and improved margin, in particular in our Land Drilling operations in the south of Argentina.

Total operating expenses, including reimbursable expenses, for the year ended December 31, 2019 amounted to $886.1 million, an increase of 1.4% compared to the year ended December 31, 2018.

Our depreciation and amortization expenses for the year ended December 31, 2019 amounted to $50.4 million, a decrease of 9.5% compared to $55.7 million for the year ended December 31, 2018. This is primarily driven by limited investments in new fixed assets in previous years.

During the fourth quarter of 2019 impairment reviews were conducted for land drilling rigs and modular rigs representing approximately 93% of the total value of our fixed assets. The following were considered to be circumstances which, more likely than not, would reduce the fair values of these businesses to below their carrying amount;

1. Reduced pricing and activity levels as a result of lower demand for land drilling services.
2. We have contracts in progress for both the modular rigs, although mobilisation of the rigs is currently delayed due to the effects of the Coronavirus pandemic.

As a consequence, an impairment charge of $1.8 million relating to land drilling assets was booked in the fourth quarter 2019.

During the third quarter of 2019, we carried out an impairment review on the carrying value of our investment in Quintana Energy Services Inc. (QES) and concluded that the carrying value of our investment was impaired. We based our conclusion on the fall in the QES quoted share price since its initial public offering, or IPO, in February 2018 and the consensus on future share prices among analysts. An impairment adjustment of $27.9 million was recorded against the carrying value of our investment, being the estimated permanent loss in value. The adjustment is reported in share of net losses of unconsolidated associates. In 2019 we recognised $7.8 million relating to our share of QES losses.

The annual impairment testing of goodwill was conducted during fourth quarter 2019 using a qualitative review. Where some indicators of possible impairment were observed, we undertook further detailed quantitative testing. The results of our testing concluded that the carrying value of our goodwill is not impaired as at 31, December 2019.

Our general and administrative expense for the year ended December 31, 2019 amounted to $39.2 million, an increase of 9.5% compared to $35.8 million for the year ended December 31, 2018. The increase is primarily due to strengthening of the support and management structures.

Interest expense for the year ended December 31, 2019 amounted to $41.5 million, a decrease of 1.0% compared to $41.9 million for the year ended December 31, 2018. The reduction in interest expense reflects primarily reduced drawing under our facilities, following the sale of our AWC business in the second half of 2018. Net interest-bearing debt was $582.3 million at December 31, 2019, compared to $585.9 million on December 31, 2018.

Other financial items, net for the year ended December 31, 2019, amounted to a loss of $17.2 million, compared to a loss of $14.3 million for the year ended December 31, 2018. The loss in 2019 relates primarily to exchange gains or losses arising on settlement of transactions denominated in currencies other than the functional currency as well as revaluation of outstanding foreign currency balances. We are also exposed to the effect of currency exchange movements on loan balances between our group companies. In particular in 2019, we recorded an exchange loss $8.4 million in relation to an internal loan denominated in NOK recorded in our holding company which reports in USD.

Our total income tax charges for 2019 amounted to a tax benefit of $3.6 million as compared to a benefit of $14.6 million for 2018. The net tax benefit primarily relates to the net operating losses of our operating entities in Norway, the United Kingdom and the North of Argentina. The net tax benefit is recognized based on the assumption that we can offset these tax losses against future profit in the respective countries.

Net losses from continuing operations for the year ended December 31, 2019 amounted to $47.7 million, compared to net loss of $53.0 million for the year ended December 31, 2018.

We have proposed no dividends for the year ended December 31, 2019.

Board of Director's Report
Financial review

Balance sheet

Our total current assets were $266.1 million at December 31, 2019; an increase of 9.1% compared to $243.9 million at December 31, 2018. Accounts receivable have increased by $8.4 million, or 6% mainly due to increased business levels, and cash increased by $11.2 million or 55%.

Our total noncurrent assets were $663.9 million at December 31, 2019 and consisted primarily of fixed assets used in our operations, goodwill, and right of use assets under operating leases, which amount to $42.8 million at 31, December.

As of December 31, 2019, our total assets amounted to $930.0 million, an increase of $19.4 million, or 2.1%, as compared to December 31, 2018. The increase is primarily due to capital investment in our modular rigs in preparation for returning to service in 2020, and capital investment in our Land Drilling and Oiltools divisions.

Our total current liabilities were $722.3 million at December 31, 2019 and include $538.9 million in respect of our revolving credit and term loan facility which matures in September 2020 and was reclassified as short term in the third quarter of 2019. Also, at December 31, 2019, current liabilities include $11.9 million short term operating lease liabilities recognised in 2019. The remaining balance consists of accounts payable and accrued expenses.

Our total noncurrent liabilities were $99.3 million at December 31, 2019 and consisted primarily of subordinated related party loan and operating lease liabilities recognised in 2019.

Cash flow

The following table summarises our cash flows from operating, investing and financing activities for the years ended December 31, 2019 and 2018.

In $ millions	**2019**	**2018**
Net cash provided by operating activities	54.1	36.9
Net cash used in investing activities	(39.7)	(1.7)
Net cash provided by/ (used in) financing activities	7.2	(56.1)
Effect of exchange rate changes on cash and cash equivalents	(9.0)	(15.3)
Cash and cash equivalents, including restricted cash at the beginning of the year	31.5	67.7
Cash and cash equivalents, including restricted cash, at the end of the year	**44.1**	**31.5**

Cash flow from operating activities increased in 2019, compared to 2018 due to better operational results.

In 2018 we limited our investments in assets to essential overhauls/recertification of operational equipment. In 2019, with contracts secured for our two modular rigs and a general increase in our markets, we have significantly increased our investment in our capital assets.

In 2018 cash used in financing activities consists mainly of repayments of our long term loan facility. In 2019 we slightly increased our drawings on our loan facilities and also increased finance lease borrowings.

Parent company results 2019

Net loss from operations for the year was $47.7 million, corresponding to a loss per share of $0.32.

Going concern

Our Board of Directors confirms their assumption of the Group as a going concern for the foreseeable future, being a period of not less than 12 months from the date of this report. This assumption is based on the liquidity position of the Group, forecasted operating results, and the long term market outlook for the oil service sector. The Board believes the annual report provides a fair presentation of the Group's assets and debt, financial position and financial performance.

The current situation of the coronavirus pandemic and the recent fall in the oil price has led to a significant amount of uncertainty in the marketplace, and is likely to have an adverse effect on our operations. We have discussed this in more detail under Going Concern in Note 1 of our financial statements.

Board of Director's Report
Financial review

Key figures

	2019	2018
Revenue *In $ millions*	929	890
EBITDA [1] *In $ millions*	94	72
EBITDA before exceptional items[2] *In $ millions*	104	89
Net (loss) / income from continuing operations *In $ millions*	(48)	(53)
Net interest bearing debt *In $ millions*	582	586
Employees at December 31	4,964	5,039

[1] EBITDA is defined as earnings before Interest and Other financial items, Taxes, Depreciation, Amortization and Impairments. This non-GAAP measurement is widely used by analysts and investors for assessing the companies underlying performance and comparisons with other companies within the industry.

[2] Exceptional items include severance payments, costs of idle personnel in Latin America and office closure costs which are non-recurring and are not directly related to our current business operations, as disclosed in Note 4 to the consolidated financial statements.

Board of Director’s Report

Archer’s Health, Safety and Environmental, or HSE, philosophy is to establish and maintain an incident-free work place where accidents, injuries or losses are always seen as preventable. The primary responsibility is to ensure employees are sufficiently trained and competent to identify, eliminate or mitigate risks while planning and undertaking their work activities.

Archer’s expectations are that all employees will remain committed to maintaining a safe working environment while recognizing that they have an individual and collective responsibility to support the company in achieving the goal of establishing an incident-free work place. In accordance with our core values, we will continue to safeguard against all accidents through continuous training and improvement measures so we keep our employees and contractors safe.

In 2019 Archer continued the Safety Commitment Initiative, but in a slightly different form. On a quarterly basis operations are requested to nominate what they believe is a best practice HSE initiative. There is no predefined framework for what these best practices should look like and they could be related to improvement in both processes and tools, and can involve one employee, a team or a whole operation. The only limitation is that the initiative needs to reduce risk that takes us one step closer to our target of zero personnel injuries.

The nominated initiatives are reviewed, with the best initiative being shared on the Archer portal on a quarterly basis.

Archer continued to reinforce the need for active participation from employees and contractors in near miss and proactive reporting programs. After a very high reporting number in 2018, the reported numbers in 2019 went slightly down, but are still above the defined target. Proactive reporting will continue to be a focus area in 2020, as Archer believes this helps to build a safety culture, through greater safety awareness, both individually and collectively.

Unfortunately Archer experienced an increase in the Total recordable incident frequency (TRIF) and the number of dropped objects during 2019. But it is important to emphasize that some of the business lines and several locations have gone through the year without any personnel injuries or dropped objects. The focus for the 2020 QHSE plan is to address the issues we had last year with some strong initiatives involving the International Association of Oil and Gas Producers Life saving rules.

During 2019 we worked a total of 12.8 million (2018: 11.5 million) man-hours. Despite our best efforts, we incurred 17 (2018:4) lost time incidents. Archer will work hard in 2020, via dedicated initiatives to ensure that hazards risks are identified and mitigated.

Archer continues to analyse the reason why incidents occurs to ensure that we learn from and do not repeat our mistakes. This will be a continued focus in 2020 to ensure we improve our HSE trend and continue our goal to an incident free workplace.

The following table provides a summary of our work injury statistics.

	2019		2018	
Area	**Loss Time Injuries**	**Medical Treatment Cases**	**Loss Time Injuries**	**Medical Treatment Cases**
Eastern Hemisphere	12	15	3	17
Western Hemisphere	5	5	1	6
Archer Total	**17**	**20**	**4**	**23**

The table above illustrates the total amount of recordable personnel injuries in both Eastern and Western Hemisphere. Archer will focus, and continue to work to improve these results.

The company is actively working to minimise the risk of damage to the environment as a result of operations. This includes the systematic registration of emissions and discharges and pre-emptive action in selecting chemicals that cause minimum harm to environment. However, there are still risks of environmental damage and negative consequences for the company. In 2019 Archer had zero reportable spills.

The Archer Management system is certified according to ISO 9001:2015 certificate. In addition the UK and Brazil operations and Wireline Norwegian operations are accredited to the ISO 14001:2015 for Environmental Management Standards. Archer has described the social responsibility in its management system and made clear commitments through the year.

Board of Director's Report

Sustainability

The company has published its first Environmental, Social, Governance report (ESG) for 2019. The ESG report has been prepared in accordance with the framework established by the Sustainability Accounting Standards Board (SASB) for Oil and Gas Services. This report allows us to identify, manage and report on material Environmental, Social and Governance (ESG) factors specific to our Industry. The report is published to provide investors, banks and other stakeholders with easy access to extra-financial information. More information is available in the ESG 2019 report on our homepage, please visit www.archerwell.com/investor-relations.

Employees and diversity

Archer experienced a positive market shift with increased activity in 2018, which continued through 2019. However the variety in the global market activity required some locations to still focus on managing headcount, while other locations spent more focus to recruitment and retention. Overall headcount for Archer was relative flat for the year, with a decrease of 2.8% during 2019 to 4,964 employees at year end 4,6% of our employees are females.

Eastern Hemisphere, headcount increased by 2.9% in 2019, mainly due to increased activity in the Engineering and Oiltools divisions. Wireline had a drop in activity for the mechanical services and experienced a 4% drop in headcount. Our Platform drilling division also experienced a decrease in headcount of 1.2%, mainly due to two contracts ending in the UK and Greece. Platform drilling operations in Norway and Brazil increased headcount with 4.6% and 4.1% respectively, in line with increased activity.

In the Western Hemisphere overall headcount reduced by 10.5%, due to activity reduction following the deactivation of five drilling rigs.

The Group is an equal opportunity employer and exercises fair treatment to all individuals regardless of race, colour, religion, gender, national origin, age, disability or any other status protected by law. This commitment applies to all employment decisions and in all the countries in which Archer entities operate.

Risks relating to the company's finance

We have refinanced the remaining debt from our syndicated facility and the Hermes covered term loan in 2020 including the subordinated debt facility.

As at December 31, 2019 under the financing obligations, we would need to make quarterly instalment payments of $10.0 million on our syndicated facility and EUR 4.7 million on our Hermes covered term loan, starting in March 2020. We have refinanced the remaining debt from our syndicated facility and the Hermes covered term loan in 2020 including the subordinated debt facility.

No assurance can be given that the company's current financing arrangements will be sufficient and that the Group will not require additional funding to fund operations and capital expenditure or for other purposes.

To the extent the company does not generate sufficient cash from operations the company and its subsidiaries may need to raise additional funds through public or private debt or equity financing, or refinance its debt facilities. Adequate sources of funds may not be available or available at acceptable terms and conditions, when needed, and the company may not be able to refinance its debt facilities on acceptable terms and conditions or at all.

The Group has a significant level of debt, and could incur additional debt in the future, which could have significant consequences for its business and future prospects.

As of December 31, 2019, the Group had total outstanding interest-bearing debt of $606 million. This debt represented 64.7% of the Group's total assets. See note 15 to the financial statements for further analysis of our debt. The Group's debt and the limitations imposed on the Group by its existing or future debt agreements could have significant consequences for the Group's business and future prospects, including the following:

- The Group may not be able to obtain necessary financing in the future for working capital, capital expenditures, acquisitions, debt service requirements or other purposes;

Board of Director's Report

- The Group will be required to dedicate a substantial portion of its cash flow from operations to payments of principal and interest on its debt;
- The Group could be more vulnerable during downturns in its business and be less able to take advantage of significant business opportunities and to react to changes in the Group's business and in market or industry conditions; and
- The Group may have a competitive disadvantage relative to its competitors that have less debt.

The Group's Revolving Credit Facility imposes financial covenants and restrictions on the Group that may limit the discretion of management in operating the Group's business and that, in turn, could impair the Group's ability to meet its obligations.

The Group's existing credit facility contains various restrictive covenants that limit management's discretion in operating its business. In particular, at December 31, 2019, these covenants limit its ability to, among other things:

- make certain types of loans and investments;
- incur or guarantee additional indebtedness;
- pay dividends, redeem or repurchase stock, prepay, redeem or repurchase other debt or make other restricted payments;
- use proceeds from asset sales, new indebtedness or equity issuances for general corporate purposes or investment into its business;
- invest in joint ventures;
- create or incur liens;
- enter into transactions with affiliates;
- sell assets or consolidate or merge with or into other companies; and
- enter into new lines of business.

For further information about our financing arrangements please see Note 15 to the financial statements.

Also see Note 26. Subsequent events which describes the refinancing of this facility which was completed in 2020.

Liquidity risk.

Liquidity risk is the risk that our group is unable to meet our financial obligations. Our approach to secure liquidity is to ensure, as far as possible, that we always have sufficient liquidity reserves to meet our liabilities when due. This requires us to maintain sufficient cash and available overdraft facilities supplemented by additional liquidity through committed credit lines as appropriate.

Should our access to debt markets become more difficult, or we are unable to refinance or repay debt when they come due, our availability of liquidity may be insufficient to service our financial obligations, and the impact on our liquidity could have a material adverse effect on our operations. Our financing costs could also be affected by interest rate fluctuations.

The Group's results of operations may be adversely affected by currency fluctuations.

Due to its international operations, the Group may experience currency exchange losses when revenues are received and expenses are paid in nonconvertible currencies, or when the Group does not hedge an exposure to a foreign currency. The Group may also incur losses as a result of an inability to collect revenues because of a shortage of convertible currency available to the country of operation, controls over currency exchange or controls over the repatriation of income or capital. The Group attempts to limit the risks of currency fluctuation and restrictions on currency repatriation where possible by obtaining contracts providing for payment of a percentage of the contract indexed to the U.S. dollar exchange rate. To the extent possible, the Group seeks to limit its exposure to local currencies by matching the acceptance of local currencies to the Group's local expense requirements in those currencies.

The Group's cost of funding is impacted by changes in the interest rate level.

The Group is generally financed using floating interest rates, and changes in the interest rate will impact the cost of financing.

The Group is exposed to credit risk and would be impacted by financial losses if one or more contractual partners do not meet their obligations.

To mitigate this risk the Group trades predominantly with recognized, creditworthy third parties. Receivable balances are monitored on an ongoing basis. The Group enters into derivative transactions only with counterparties with whom it has an established business relationship.

Board of Director's Report

Risks Relating to the Group and the Industry in which the Group Operates

The Group's business depends on the level of activity of oil and natural gas exploration, development and production in the North Sea and internationally.

The Group's business depends on the level of activity of oil and natural gas exploration, development and production in the North Sea and internationally, and in particular, the level of exploration, development and production expenditures of the Group's customers. Demand for the Group's drilling and well services is adversely affected by declines in exploration, development and production activity associated with depressed oil and natural gas prices. Even the perceived risk of a decline in oil or natural gas prices often causes exploration and production companies to reduce their spending. A decline in oil and natural gas prices may cause a reduction in drilling, completion and other production activities of the Group's customers and related spending on the Group's products and services. These effects could have a material adverse effect on the Group's financial condition, results of operations and cash flows. In 2019 we experienced relative stability in the oil price compared to previous years. A more stable oil price could lead to increase in activity as the major operators increase their spending.

Legal requirements, conservation measures and technological advances could reduce demand for oil and natural gas, which may adversely affect the Group's business, financial condition, results of operations and cash flows.

Environmental and energy matters have been the focus of increased scientific and political scrutiny and are subject to various legal requirements. International agreements, national laws, state laws and various regulatory schemes limit or otherwise regulate energy-related activities, such as emissions of greenhouse gases, and additional restrictions are under consideration by governmental entities.

The Group is experiencing continued challenges in its Argentina operations.

Land drilling activity in Argentina fell in late 2019 due to uncertainly during presidential elections and a change in political leadership. How the new government of Argentina invests in the energy sector, makes changes to employment and labor legislation, and formulates policy around taxation, currency control and exchange, national debt repayment, and commodity pricing could all have a significant effect on the Group's business in Argentina.

Global political, economic and market conditions influence, and could negatively impact, the Group's business.

The Group's operations are affected by global political, economic and market conditions. A worldwide economic downturn could reduce the availability of liquidity and credit to fund business operations worldwide. This could adversely affect the operations of the Group's customers, suppliers and lenders which in turn could affect demand for the Group's services. In addition, an economic downturn could reduce demand for oilfield services negatively and impact the Group's activity levels and pricing of its services and thus adversely affect the Group's financial condition and results of operations.

Employee and customer labor problems could adversely affect the Group.

Archer and its subsidiaries are parties to collective bargaining agreements material to the Group's operations in Argentina, Brazil, the United Kingdom and Norway. We have experienced strikes, work stoppages or other slowdowns in the past. A prolonged strike, work stoppage or other slowdown by our employees or by the employees of our customers could cause us to experience a disruption of our operations, which could adversely affect our business, financial condition and results of operations.

The Group is subject to numerous governmental laws and regulations, some of which may impose significant liability on the Group for environmental and natural resource damages.

The Group is subject to various local and foreign laws and regulations, including those relating to the energy industry in general and the environment in particular, and may be required to make significant capital expenditures to comply with laws and the applicable regulations and standards of governmental authorities and organizations. Moreover, the cost of compliance could be higher than anticipated. The Group's operations are subject to compliance with international conventions and the laws, regulations and standards of other countries in which the Group operates, including anti-bribery regulations. It is also possible that existing and proposed governmental conventions, laws, regulations and standards, including those related to climate and emissions of "greenhouse gases," may in the future add significantly to the Group's operating costs or limit the Group's activities or the activities and levels of capital spending by the Group's customers.

The loss of the services of key executives could hurt the Group's operations.

The Group is dependent upon the efforts and skills of certain directors of the Group and executives employed by the company to manage the Group's business, identify and consummate additional acquisitions and obtain and retain customers.

Board of Director's Report

Severe weather conditions could have a material adverse impact on the Group's business.

The Group's business could be materially and adversely affected by severe weather in the areas where it operates. Repercussions of severe weather conditions may include:

- curtailment of services;
- weather-related damage to facilities and equipment resulting in suspension of operations;
- inability to deliver materials to job sites in accordance with contract schedules; and
- loss of productivity.

A terrorist attack or armed conflict could harm the Group's business.

Terrorist activities, anti-terrorist efforts and other armed conflicts in, or involving any region of the Group's activities or other oil producing nation may adversely affect local and global economies and could prevent the Group from meeting their financial and other obligations.

The Group has recorded substantial goodwill as the result of its acquisitions and goodwill is subject to periodic reviews of impairment.

The Group performs purchase price allocations to intangible assets when it makes acquisitions. The excess of the purchase price after allocation of fair values to tangible assets is allocated to identifiable intangibles and thereafter to goodwill. The Group conducts periodic reviews of goodwill for impairment in value. Any impairment would result in a non-cash charge against earnings in the period reviewed, which may or may not create a tax benefit, and would cause a corresponding decrease in shareholders' equity. In the event that market conditions deteriorate or there is a prolonged downturn, the Group may be required to record an impairment of goodwill, and such impairment could be material.

The Group's investment in Quintana Energy Services Inc. might be impacted due to the market conditions or other circumstances.

Our investment in Quintana Energy Services Inc. (or QES), which is listed on the New York Stock Exchange, consisting of 28% of the shares, is recorded in our balance sheet to $21 million. The share price of QES may fluctuate considerably depending on the market outlook for the company and investor sentiment.

The Group has operated at a loss in the past and recently, and there is no assurance of its profitability in the future.

Historically, the Group has experienced periods of low demand for its services and has incurred operating losses. In the future, it may not be able to reduce its costs, increase its revenues, or reduce its debt service obligations sufficient to achieve or maintain profitability and generate positive operating income. Under such circumstances, the Group may incur further operating losses and experience negative operating cash flow.

The Group may be subject to litigation if another party claims that the Group has infringed upon its intellectual property rights.

Third parties could assert that the tools, techniques, methodologies, programs and components the Group uses to provide its services infringe upon the intellectual property rights of others. Infringement claims generally result in significant legal and other costs and may distract management from running the Group's core business. Additionally, if any of these claims were to be successful, developing non-infringing technologies and/or making royalty payments under licenses from third parties, if available, would increase the Group's costs.

The Group could be adversely affected if it fails to keep pace with technological changes and changes in technology could have a negative result on the Group's market share.

The Group provides drilling and well services in increasingly challenging onshore and offshore environments. To meet its clients' needs, the Group must continually develop new, and update existing, technology for the services it provides. In addition, rapid and frequent technology and market demand changes can render existing technologies obsolete, requiring substantial new capital expenditures, and could have a negative impact on the Group's market share.

The Group may be subject to claims for personal injury and property damage, which could materially adversely affect the Group's financial condition and results of operations.

Substantially all of the Group's operations are subject to hazards that are customary for exploration and production activity, including blowouts, reservoir damage, loss of well control, cratering, oil and gas well fires and explosions, natural disasters, pollution and mechanical failure. Any of these risks could result in damage to or destruction of drilling equipment, personal injury and property damage, suspension of operations, or environmental damage. The Group may also be subject to property,

Board of Director's Report

environmental and other damage claims by oil and natural gas companies and other businesses operating offshore and in coastal areas. Litigation arising from an accident at a location where the Group's products or services are used or provided may cause the Group to be named as a defendant in lawsuits asserting potentially large claims. Generally, the Group's contracts provide for the division of responsibilities between the Group and its customer, and consistent with standard industry practice, the Group's clients generally assume, and indemnify the Group against, some of these risks. There can be no assurance, however, that these clients will necessarily be financially able to indemnify the Group against all risks. Also, the Group may be effectively prevented from enforcing these indemnities because of the nature of the Group's relationship with some of its larger clients. Additionally, from time to time the Group may not be able to obtain agreement from its customers to indemnify the Group for such damages and risks.

To the extent that the Group is unable to transfer such risks to customers by contract or indemnification agreements, the Group generally seeks protection through customary insurance to protect its business against these potential losses. However, the Group has a significant amount of self-insured retention or deductible for certain losses relating to general liability and property damage. There is no assurance that such insurance or indemnification agreements will adequately protect the Group against liability from all of the consequences of the hazards and risks described above. The occurrence of an event for which the Group is not fully insured or indemnified against, or the failure of a customer or insurer to meet its indemnification or insurance obligations, could result in substantial losses.

The Group's insurance coverage may become more expensive, may become unavailable in the future, and may be inadequate to cover the Group's losses.

The Group's insurance coverage is subject to certain significant deductibles and levels of self-insurance, does not cover all types of losses and, in some situations, may not provide full coverage for losses or liabilities resulting from the Group's operations

Archer Limited is a holding company, and as a result is dependent on dividends from its subsidiaries to meet its obligations.

Archer Limited is a holding company and does not conduct any business operations of its own. Archer Limited's principal assets are the equity interests it owns in its operating subsidiaries, either directly or indirectly. As a result, the Archer Limited is dependent upon cash dividends, distributions or other transfers it receives from its subsidiaries to repay any debt it may incur, and to meet its other obligations. The ability of Archer's subsidiaries to pay dividends and make payments to Archer Limited will depend on their operating results and may be restricted by, among other things, applicable corporate, tax and other laws and regulations and agreements of those subsidiaries. For example, the corporate laws of some jurisdictions prohibit the payment of dividends by any subsidiary unless the subsidiary has a capital surplus or net profits in the current or immediately preceding fiscal year. Payments or distributions from Archer's subsidiaries also could be subject to restrictions on dividends or repatriation of earnings under applicable local law, and monetary transfer restrictions in the jurisdictions in which Archer's subsidiaries operate. Archer's subsidiaries are separate and distinct legal entities. Any right that Archer Limited has to receive any assets of or distributions from any subsidiary upon the bankruptcy, dissolution, liquidation or reorganization of such subsidiary, or to realize proceeds from the sale of the assets of any subsidiary, will be junior to the claims of that subsidiary's creditors, including trade creditors.

The Group's tax liabilities could increase as a result of tax audits, inquiries or settlements.

The Group's operations are, and may in the future become, subject to audit, inquiry and possible re-assessment by different tax authorities. In accordance with applicable accounting rules relating to contingencies, management provides for taxes in the amounts that it considers probable of being payable as a result of these audits and for which a reasonable estimate may be made. Management also separately considers if taxes payable in relation to filings not yet subject to audit may be higher than the amounts stated in the Group's filed tax return, and makes additional provisions for probable risks if appropriate. As forecasting the ultimate outcome includes some uncertainty, the risk exists that adjustments will be recognized to the Group's tax provisions in later years as and when these and other matters are finalized with the appropriate tax authorities.

The Group's operations are subject to a significant number of tax regimes, and changes in legislation or regulations in any one of the countries in which the Group operates could negatively and adversely affect the Group's results of operations.

The Group's operations are carried out in several countries across the world, and the Group's tax filings are therefore subject to the jurisdiction of a significant number of tax authorities and tax regimes, as well as cross-border tax treaties between governments. Furthermore, the nature of the Group's operations means that the Group routinely has to deal with complex tax issues (such as transfer pricing, permanent establishment or similar issues) as well as competing and developing tax systems where tax treaties may not exist or where the legislative framework is unclear. In addition, the Group's international operations are taxed on different bases that vary from country to country, including net profit, deemed net profit (generally based on turnover) and revenue based withholding taxes based on turnover.

Board of Director's Report

Cyber-attacks could adversely affect the Group's business.

The Group's operations are subject to the risk of cyber-attacks. If the Group's systems for protecting against cybersecurity risks are circumvented or breached, this could result in the loss of the Group's intellectual property or other proprietary information, including customer data, and disruption of its business operations, which could adversely affect the Group's financial condition and results of operation.

The Group has a significant operation in the UK, which could be impacted by the ongoing Brexit-negotiation and could have a material impact to our consolidated revenue, earnings and cash flow

In 2019, the United Kingdom left the European Union (EU) in an action commonly referred to as Brexit. Although the terms of Brexit are still evolving, the effects of Brexit to Archer's operation will depend on any agreements the UK makes to retain access to EU markets either during a transitional period or more permanently.

Disruptions to our supply chain and that of our customers, the imposition of tariffs and currency devaluation in the UK could result in a material impact to our consolidated revenue, earnings and cash flow.

Outbreaks of pandemic and pandemic diseases and governmental responses thereto could adversely affect our business.

Our operations are subject to risks related to outbreaks of infectious diseases. For example, the recent outbreak of Coronavirus, a virus causing potentially deadly respiratory tract infections originating in China, has already and may continue to negatively affect economic conditions, our operations and the operations of our customers, suppliers and other stakeholders. Governments in affected countries are imposing travel bans, quarantines and other emergency public health measures. Those measures, though temporary in nature, may continue and increase depending on developments in the virus' outbreak. As a result of these measures our offshore staff may be restricted from embarking and disembarking in ports located in regions affected by Coronavirus. The ultimate severity of the Coronavirus outbreak is uncertain at this time and therefore we cannot predict the impact it may have on our future operations and the health of our employees which could be material and adverse. The possible effects of the pandemic are discussed more fully under Going Concern in Note 1 to our financial statements.

Share Capital issues

At December 31, 2019, our authorised share capital was $10,000,000 consisting of 1,000,000,000 shares each with a par value of $0.01. All of our shares are of the same class.

At December 31, 2019, the number of shares issued was 148,050,298 corresponding to a share capital of $1.5 million.

The issued shares are fully paid, and all issued shares represent capital in the company. The shares are equal in all respects and each share carries one vote at our General Meeting of shareholders. None of our shareholders have different voting rights. The Board is not aware of any other shareholders agreements or any take-over bids during the year.

All of our issued shares are listed on the Oslo Stock Exchange and the split of the shareholders, as registered in the Norwegian Central Securities Depository (VPS), was as per the table below.

Shareholder overview as of December 31, 2019

Seadrill JU Newco Bermuda Limited	15.6%
Hemen Holding Limited	12.6%
Nordnet Livsforsikring	4.9%
Lime Rock Partners VLP	4.5%
Others	62.4%

Board of Director's Report

Hemen Holding Ltd, or Hemen, a Cyprus holding company is indirectly controlled by trusts established by Mr. John Fredriksen, for the benefit of his immediate family. Mr Fredriksen is the largest shareholder of Seadrill, which is our largest shareholder.

Corporate governance

The Board has reviewed our compliance with various rules and regulations, such as the Norwegian Accounting Act, the Norwegian Code of Practice for Corporate Governance, as well as the respective Bermuda law. A detailed discussion of each item can be found in the compliance section of this annual report in Appendix A. The Board believes that we are in compliance with the rules and regulations except for certain sections where the reasons for this noncompliance are provided.

Board of Director's Report
Board of Directors

Composition of the Board

Overall responsibility for the management of Archer Limited and its subsidiaries rests with the Board. Our bye-laws provide that the Board shall consist of a minimum of two directors and the shareholders have currently approved a maximum of nine directors.

Archer Limited's business address at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton HM 08, Bermuda, serves as c/o addresses for the members of the Board in relation to their directorships of the company.

Mr. John Reynolds served as a Director since February up until his resignation in November 2019.

Mr. Dag Skindlo served as a Director from April 2016 and resigned from the Board in May 2019. He currently serves as Chief Executive.

Kjell-Erik Østdahl
Chairman of the Board
Kjell-Erik Østdahl joined Archer Limited as Chairman of the Board in September 2019, prior to which he spent 21 years at Schlumberger in a number of senior positions within operations, business development, marketing and executive management in China, Norway, UK, France and US. He served as Executive Vice President, Operations, Schlumberger from 2011 to 2013 and was senior partner at HitecVision from 2014 to 2015. Mr. Østdahl is a professional investor in technology start-up companies and real estate. In addition, he is a senior advisor at Blackstone Investment Firm. Mr Østdahl serves as Chairman on the Boards of Sekal AS, Inflow Control AS, Earth Science Analytics AS and Cannseal AS and is a board member of Olympic Subsea ASA, Mime Petroleum AS and Seadrill Limited. Mr. Østdahl holds an MSc in Electrical Engineering from the Norwegian University of Science and Technology (NTNU). Mr. Østdahl is a Norwegian citizen and resides in Norway.

James O'Shaughnessy
Director
Mr. James O'Shaughnessy has served as Director and Chairman of the Audit Committee since September 2018. Prior to joining the Archer Limited's board of directors, Mr O'Shaughnessy served as Executive Vice President, Chief Accounting Officer and Corporate Controller of Axis Capital Holdings Limited since March, 2012. Prior to that Mr. O'Shaughnessy has amongst other served as Chief Financial Officer of Flagstone Reinsurance Holdings and as Chief Accounting Officer and Senior Vice President of Scottish Re Group Ltd., and Chief Financial Officer of XL Re Ltd. at XL Group plc. Mr. O'Shaughnessy received a Bachelor of Commerce degree from University College, Cork, Ireland in 1985 and is both a Fellow of the Institute of Chartered Accountants of Ireland and an Associate Member of the Chartered Insurance Institute of the UK. Mr. O'Shaughnessy earned a Master's Degree in Accounting from University College Dublin in 1986. Mr. O'Shaughnessy is a British and Bermudan citizen, residing in Bermuda.

Giovanni Dell' Orto
Director
Giovanni Dell' Orto was appointed as a Director in February 2011. Mr. Dell' Orto was president and chief executive officer of DLS Drilling, Logistics and Services from 1994 to August 2006. He is a member of the board of Energy Developments and Investments Corporation (EDIC). He also is a non-executive member of the board of directors of Gas Plus S.p.a., an Italian company listed on the Milan Stock Exchange. Mr. Dell' Orto also has served as chairman and Chief Executive Officer of Saipem and was a board member of Agip and Snam. Mr. Dell' Orto is an Argentinean citizen, resident in Switzerland.

Board of Director's Report
Board of Directors

Kristian Melhuus
Director
Mr. Melhuus was appointed as a Director in May 2019. Mr. Melhuus is a Director of Seatankers Management Norway AS. He holds an MSc in industrial economics and Technology Management from the Norwegian University of Science and Technology and the University of Karlsruhe. He also serves on the Boards of Mowi ASA and NorAm Drilling Co. AS. Prior to his current engagements, Mr. Melhuus held the position of Investment Director at HitecVision, and Research Analyst at ABG Sundal Collier Partners LLP. Mr Melhuus is a Norwegian citizen residing in Norway.

Peter Sharpe
Director
Mr. Sharpe was appointed as a Director in November 2019. Mr. Sharpe retired from Shell in 2017 after holding a diverse range of Executive Management positions at various international locations over a period of 37 years. He Served as Executive Vice President of Shell for over 10 years, with responsivity for managing Shell upstream investments in well construction and maintenance globally. He served as chairmen of Sirius Well Manufacturing Pte, an independent joint venture between Shell and China National Petroleum Corporation from 2012 to 2017 and as a non-executive director of Xtreme Drilling and Coil Services Corporation from 2008 to 2014. Mr Sharpe also sits on the Board of Directors off Seadrill Limited. Mr. Sharpe received a Bachelor of Science degree from the University of Hull in 1980. He is a UK citizen residing in the United Kingdom.

Board independence

The Chairman of the company's five-member Board of Directors is elected by the Board of Directors and not by the shareholders as recommended in the Norwegian Code of Practice. This is in compliance with normal procedures under Bermuda law.

Board of Director's Report
Senior management

Dag Skindlo
Chief Executive Officer

Mr. Skindlo joined Archer in April 2016 as Chief Financial Officer before becoming Chief Executive Officer on March 10, 2020.

Mr. Skindlo is a business-oriented executive with more than 25 years in the Oil and Gas industry. He joined Schlumberger in 1992 where he held various financial and operational positions before he joined the Aker Group of companies in 2005. His experience from Aker Kvaerner, Aker Solutions and Kvaerner includes both global CFO roles and Managing Director roles for several large industrial business divisions. Prior to joining Archer Mr. Skindlo was the Chief Executive Officer of Aquamarine Subsea, a HitecVision owned company. Mr. Skindlo brings with him extensive international experience including working for more than twelve years in countries like the US, Indonesia, Scotland, and China. Mr. Skindlo currently serves as Director of the NYSE listed oilfield service company Quintana Energy Services. Mr. Skindlo is a Norwegian citizen with a Master of Science in Economics and Business Administration from the Norwegian School of Economy and Business Administration (NHH).

Espen Joranger
Chief Financial Officer

Mr. Joranger was appointed Chief Financial Officer for Archer in March 2020. Mr. Joranger has more than 10 years experience from the Oil and Gas industry. Espen joined Archer in May 2013 as Finance Director North Sea Region and held the position as Group Controller prior to his appointment as Chief Financial Officer in Archer. Before joining Archer, he worked for Seadrill as Director of Financial Accounting for 3 years and 8 years for Ernst & Young. Mr. Joranger is a State Authorized Public Accountant from the Norwegian School of Economics and Business Administration (NHH). Espen is a Norwegian citizen and resides in Stavanger, Norway.

Adam Todd
General Counsel

Mr. Todd was appointed General Counsel in September 2017. Mr. Todd holds a Juris Doctor Law degree from the University of Alberta Canada and has since gained broad legal and commercial experience through Canadian law firms Bishop & McKenzie LLP and McLennan Ross LLP prior to joining Aker Solutions in 2009.

Board of Director's Report
Responsibility Statement

We confirm that, to the best of our knowledge, the financial statements for 2019 have been prepared in accordance with the current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss for the Group as a whole.

We also confirm that the Board of Director's Report includes a true and fair review of the development and performance of the business and the position of the Group, together with a description of the financial risks and uncertainties facing the Group.

April 2020

The Board of Archer Limited

Kjell-Erik Østdahl
(Chairman)

Giovanni Dell' Orto
(Director)

James O'Shaughnessy

James O'Shaughnessy
(Director)

Kristian Melhuus

Kristian Melhuus
(Director)

Peter Sharpe
(Director)

Independent auditors' report to the members of Archer Limited

Report on the audit of the financial statements

Opinion

In our opinion, Archer Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2019, and of the group's and the company's loss and cash flows for the year then ended;
- have been properly prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"); and
- have been prepared in accordance with the requirements of the Companies Act 1981 (Bermuda).

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company balance sheets as of December 31, 2019; the consolidated and company statements of operations, the consolidated and company statements of comprehensive loss, the consolidated and company statements of accumulated other comprehensive income/(loss), the consolidated and company statements of cashflows, and the consolidated and company statements of changes in shareholders' equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

	• Overall group materiality: \$9.3 million (2018: \$8.9 million), based on 1% of revenue. • Overall company materiality: \$8.5 million (2018: \$6.4 million), based on 1% of total assets.
	• We conducted full scope audit work over 4 components in which the group has significant operations (Scotland, Norway and Argentina North and South). • In addition, we performed procedures on specific balances at 3 non-significant components. • During the year, the group engagement team visited Scotland and Norway and participated in meetings for Argentina North and South via video call due to imposed travel restrictions as a result of the COVID-19 outbreak.
	• Valuation of certain modular and land based rigs (group). • Valuation of the investment in QES (group). • COVID-19 (group & company)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>
Valuation of certain modular and land based rigs

The value of the group's land and modular rigs is material and we identified a risk that the carrying value of the assets may not be recoverable. Due to the general downturn in the industry, management has assessed the carrying values for impairment by reference to the sum of the undiscounted cash flows that the asset is expected to generate, including any estimated disposal proceeds.

Where the undiscounted cash flows for a rig are less than its carrying value, management have adjusted the carrying value, by recording an impairment, to its estimated recoverable value.

An impairment of $1.8m has been recorded in 2019 to reduce the carrying value of certain land rigs to their estimated recoverable values. For the remaining rigs, management concluded that the recoverable amount was higher than the carrying value.

We focused on this area due to the significant carrying value of the rigs and the judgement inherent in the impairment review.
</td><td>
Our procedures included the following:

We evaluated management's impairment assessment and the process by which this was performed.
We assessed management's accounting policy against US GAAP and obtained explanations from management as to how the specific requirements of the standards were met.
We assessed the significant assumptions management used in their forecast. This included tracing input data to actual contracts and considering whether key assumptions such as estimated utilisation rates and day rates were consistent with historical performance and our knowledge of the industry. We also performed a sensitivity analysis on the assumptions made by management using various "worst case" scenarios.
In order to assess management's estimate of the fair value of the land rigs, we considered the evidence obtained from an external valuation firm and also the objectivity and competence of that firm to provide reliable estimates.

From the evidence obtained we found the assumptions and methodology used to be appropriate.
</td></tr>
<tr><td>
Valuation of the investment in QES

At 31 December 2019, Archer held a 28.1% equity investment in Quintana Energy Services, Inc., a US-based and listed oil and gas services supplier.

As a result of the decrease in QES share price during the year, management performed an impairment assessment and recorded an impairment charge of $27.9m to the investment in QES in 2019.

At 31 December 2019, after the recognition of the impairment loss and a $7.8m share of QES losses for 2019, the carrying value of the group's equity investment was $21.3m, equivalent to $2.24 per share.

We focused on this area due to the significant carrying value of the investment in QES and the judgement inherent in the impairment review.
</td><td>
Our procedures included the following:

We evaluated management's impairment assessment and the process by which this was performed.
We assessed management's accounting policy against US GAAP and obtained explanations from management as to how the specific requirements of the standard were met.
We evaluated management's consideration of the current and historical share price of QES, and also the published views of analysts covering the business, in determining what element of the reduction in share value in 2019 was considered to be other than temporary. We also agreed these data points back to an independent source.

From the evidence obtained we found the methodology used to be appropriate and supportive of the impairment charge recorded in 2019.
</td></tr>
</table>

COVID - 19 The COVID-19 outbreak and the social distancing measures implemented by governments around the World have the potential to materially affect the operations of the group, its customers, suppliers and other stakeholders. For example, as a result of travel bans and quarantine measures, Archer's offshore staff may be restricted from embarking and disembarking in ports located in regions affected by COVID-19. We focused on re-evaluating our initial risk assessment, to determine whether the resultant uncertainties required additional audit testing or additional disclosures in the financial statements.	Our procedures included the following: • We considered the extent to which the group's future cash flows might be adversely affected by COVID-19. • We considered the adequacy of the group's subsequent events disclosures in Note 26 to the consolidated financial statements. • We considered management's conclusion that COVID-19 represents a non-adjusting balance sheet event as at 31 December 2019. From the evidence obtained we found the assumptions used and disclosures provided to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Archer Limited has operating headquarters in Scotland, Norway and Argentina.

The Group engagement team is based in the UK and supported by component teams in Scotland, Norway and Argentina.

Where work was performed by component teams, we determined the level of independent involvement needed at those local operations to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. We issued formal, written instructions to the component teams setting out the work to be performed by each of them and maintained regular communication throughout the audit cycle. These interactions included participating in the planning and clearance meetings with our teams in Scotland, Norway and Argentina, holding regular conference calls, as well as reviewing work papers and assessing matters reported.

We performed full scope audits at the significant components in Scotland, Norway and Argentina. We performed certain specified audit procedures across 3 non-significant components to gain sufficient audit coverage over financial statement line items in the consolidated financial statements. The financial statement line items covered at each individual component varied based on their size, but consisted of some or all of the following: revenues, impairments, share of results of affiliates, property plant and equipment, deferred taxes, and trade receivables.

In total the audit work performed accounted for approximately 94% of consolidated net revenue and approximately 85% of consolidated fixed assets. At the group level, we also carried out analytical and other procedures on the components not covered by the procedures described above. The group engagement team also performed audit procedures over the consolidation.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	$9.3 million (2018: $8.9 million).	$8.5 million (2018: $6.4 million).
How we determined it	1% of revenue.	1% of total assets.
Rationale for benchmark applied	Total revenues are one of the key measures monitored by management to assess the recurring financial performance of the group as it best represents results from underlying operations. Revenues are included in the monthly management pack, with current month and year-to-date revenue compared to the prior year and forecast.	We consider total assets to be one of the principal considerations for the members of Archer Limited in assessing the parent company's financial position.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between $3.5 million and $8.5 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $922,000 (Group audit) (2018: $885,000) and $846,000 (Company audit) (2018: $635,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Responsibility Statement set out on page 18, the directors are responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as permitted by the Companies Act 1981 (Bermuda), and for being satisfied that they give a true and fair view of the state of affairs of the group and the company as at 31 December 2019, and of the loss for the year then ended. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing financial statements, the directors are responsible for selecting suitable accounting policies and then applying them consistently, stating whether applicable accounting policies generally accepted in the United States of America have been followed, making judgements and accounting estimates that are reasonable and prudent, assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities, as well as keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 90 of the Companies Act 1981 (Bermuda) and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants Uxbridge
29 April 2020

1. The maintenance and integrity of the group's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in Bermuda governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Financial Statements 2019

Archer Limited and subsidiaries
Consolidated statement of operations

($ in millions, except share and per share data)	YEAR ENDED DECEMBER 31	
	2019	**2018**
Revenues		
Contract revenues	833.6	784.8
Reimbursable revenues	95.0	78.4
Other revenues	-	26.4
Total revenues	**928.6**	**889.6**
Expenses		
Operating expenses	689.3	707.4
Reimbursable expenses	93.1	74.1
Operating lease costs	12.7	-
Depreciation and amortization	50.4	55.7
Net gain on sale of assets	(0.4)	-
Impairment of goodwill and other assets	1.8	1.1
General and administrative expenses	39.2	35.8
Total expenses	886.1	874.1
Operating income	**42.5**	**15.5**
Financial items		
Interest income	1.9	3.7
Interest expense	(41.5)	(41.9)
Share of net losses, and impairment of unconsolidated associates	(37.0)	(39.4)
Gain on sale of Frac Valve business	-	8.8
Other financial items, net	(17.3)	(14.3)
Total financial items	**(93.8)**	**(83.1)**
Loss from continuing operations before income taxes	**(51.3)**	**(67.6)**
Income tax benefit	3.6	14.6
Loss from continuing operations	**(47.7)**	**(53.0)**
Net Loss	**(47.7)**	**(53.0)**
Basic loss per share ($) - from continuing operations	**(0.32)**	**(0.36)**
Diluted loss per share ($) - from continuing operations	**(0.32)**	**(0.36)**
Weighted average number of shares outstanding *(In thousands)*		
Basic	147,607,069	147,428,948
Diluted	147, 607,069	147,428,948

See accompanying notes that are an integral part of these Consolidated Financial Statements.

Archer Limited and subsidiaries
Consolidated Statement of Comprehensive Loss

($ in millions)	YEAR ENDED DECEMBER 31	
	2019	**2018**
Net loss	**(47.7)**	**(53.0)**
Other comprehensive (loss) / income, net of tax		
Change in residual pension liability	-	0.7
Foreign currency translation differences	8.0	(1.6)
Other comprehensive income/(loss), net	**8.0**	**(0.9)**
Total comprehensive loss, net of tax	**(39.7)**	**(53. 9)**

Archer Limited and Subsidiaries
Consolidated statement of accumulated other comprehensive income/(loss)

	PENSION – UNRECOGNISED GAIN/(LOSS)	CHANGE IN UNREALISED FOREIGN EXCHANGE DIFFERENCES	TOTAL
Balance at December 31, 2017	**(0.7)**	**(0.5)**	**(1.2)**
Change in residual pension liability	0.7	-	0.7
Foreign currency translation differences	-	(1.6)	(1.6)
Balance at December 31, 2018	-	**(2.1)**	**(2.1)**
Foreign currency translation differences	-	8.0	8.0
Balance at December 31, 2019	-	**5.9**	**5.9**

See accompanying notes that are an integral part of these Consolidated Financial Statements.

Archer Limited and subsidiaries
Consolidated Balance Sheet

$ in millions)	DECEMBER 31	
ASSETS	**2019**	**2018**
Current assets		
Cash and cash equivalents	31.4	20.2
Restricted cash	12.7	11.3
Accounts receivables, net of allowance for doubtful accounts of $0 million and $1.0 million respectively	145.4	137.0
Inventories	53.0	51.9
Other current assets	23.6	23. 5
Total current assets	**266.1**	**243.9**
Noncurrent assets		
Investments in unconsolidated associates	21.3	57.0
Loans to associates	10.0	9.5
Property plant and equipment, net	373.9	392.5
Right of use assets	42.8	-
Deferred tax, net of valuation allowance	30.5	26.9
Goodwill	171.1	172.6
Other intangible assets	1.1	1.1
Other noncurrent assets	13.2	7.1
Total noncurrent assets	**663.9**	**666.7**
Total assets	**930.0**	**910.6**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current portion of interest-bearing debt	548.1	4.7
Operating lease liabilities	11.9	-
Other current liabilities	162.3	153.6
Total current liabilities	**722.3**	**158.3**
Noncurrent liabilities		
Long-term interest-bearing debt	7.3	543.0
Subordinated related party loan	58.3	58.3
Operating lease liabilities	31.0	-
Deferred tax	2.3	2.8
Other noncurrent liabilities	0.4	1.0
Total noncurrent liabilities	**99.3**	**605.1**
Shareholders' equity		
Common shares of par value $0.01 per share; 1.0 billion shares authorised, 148,050,298 outstanding shares at December 31, 2019 (December 31, 2018: 147,462,012 shares of $0.01 par value)	1.5	1.5
Additional paid-in capital	927.6	926.7
Accumulated deficit	(1,566.7)	(1,519.0)
Accumulated other comprehensive Income/(loss)	5.9	(2.1)
Contributed surplus	740.1	740.1
Total shareholders' equity	**108.4**	**147.2**
Total liabilities and shareholders' equity	**930.0**	**910.6**

See accompanying notes that are an integral part of these Consolidated Financial Statements.

Archer Limited and subsidiaries
Consolidated statement of cash flows

($ in millions)	YEAR ENDED DECEMBER 31	
	2019	**2018**
Cash Flows from Operating Activities		
Net loss from continuing operations	**(47.7)**	**(53.0)**
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	50.4	55.7
Share-based compensation expenses	0.9	0.7
Net (gain)/loss on sale of assets	(0.4)	0.2
Gale on sale of Frac Valve business	-	(8.8)
Gain recorded on QES IPO	-	(2.3)
Impairment of goodwill and other assets	1.8	1.1
Share of losses of unconsolidated affiliates	37.0	39.4
Amortization of loan fees and senior note premium	1.2	1.1
Foreign currency loss	15.6	18.6
Changes in operating assets and liabilities		
(Increase) / decrease in trade accounts receivable and other short-term receivables	(7.2)	10.7
Decrease / (increase) in inventories	4.0	(2.0)
Increase / (decrease) in trade accounts payable and other short-term liabilities	8.9	(7.6)
Change in deferred tax balances	(10.4)	(16.9)
Net cash provided by operating activities	**54.1**	**36.9**
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(41.5)	(24.5)
Proceeds from sale of property, plant and equipment	3.7	1.2
Proceeds from disposal of subsidiary and liquidation of equity investment	-	33.2
Investment in / loans to associates	(1.9)	(11.6)
Net cash used in investing activities	**(39.7)**	**(1.7)**
Cash Flows from Financing Activities		
Borrowings under revolving facilities	36.7	9.4
Repayments under revolving facilities	(32.9)	(63.6)
Proceeds from debt	5.1	0.8
Repayment of debt	(1.7)	(2.7)
Net cash provided by / (used in) financing activities	**7.2**	**(56.1)**
Effect of exchange rate changes on cash and cash equivalents	(9.0)	(15.3)
Net increase / (decrease) in cash and cash equivalents, including restricted cash	**12.6**	**(36.2)**
Cash and cash equivalents, including restricted cash, at beginning of the year	31.5	67.7
Cash and cash equivalents, including restricted cash, **at the end of the year**	**44.1**	**31.5**
Interest paid	(40.3)	(40.9)
Taxes paid	(5.1)	(3.5)

See accompanying notes that are an integral part of these Consolidated Financial Statements

Archer Limited and subsidiaries

Consolidated statement of changes in shareholders' equity

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($ in millions)	SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)	CONTRIBUTED SURPLUS	TOTAL SHAREHOLDERS' EQUITY
Balance at December 31, 2017	**1.5**	**926.0**	**(1,466.0)**	**(1.2)**	**740.1**	**200.4**
Foreign currency translation differences	-	-	-	(1.6)	-	(1.6)
Change in residual pension liability	-	-	-	0.7	-	0.7
Share-based compensation	-	0.7	-	-	-	0.7
Net loss	-	-	(53.0)	-	-	(53.0)
Balance at December 31, 2018	**1.5**	**926.7**	**(1,519.0)**	**(2.1)**	**740.1**	**147.2**
Foreign currency translation differences	-	-	-	8.0	-	8.0
Share-based compensation	-	0.9	-	-	-	0.9
Net loss	-	-	(47.7)	-	-	(53.0)
Balance at December 31, 2019	**1.5**	**927.6**	**(1,566.7)**	**5.9**	**740.1**	**108.4**

See accompanying notes that are an integral part of these Consolidated Financial Statements.

Note 1 — General Information

Archer is an international oilfield service company providing a variety of oilfield products and services through its global organisations. Services include Platform Drilling, Land Drilling, Modular Rigs, Engineering services, Wireline services, production monitoring, well imaging and integrity management tools.

As used herein, unless otherwise required by the context, the term "Archer" refers to Archer Limited and the terms "company", "we", "Group", "our" and words of similar import refer to Archer and its consolidated subsidiaries. The use herein of such terms as Group, organisation, we, us, our and its, or references to specific entities, is not intended to be a precise description of corporate relationships.

Archer was incorporated on August 31, 2007, and conducted operations as Seawell Ltd., or Seawell, until May 16, 2011, when shareholders approved a resolution to change the name to Archer Limited.

Basis of presentation

The financial statements are presented in accordance with generally accepted accounting principles in the United States of America (US GAAP). The amounts are presented in United States Dollars, USD, or $ rounded to the nearest million, unless otherwise stated.

We present our financial statements on a continuing business basis and separately present discontinued operations.

The accounting policies set out below have been applied consistently to all periods in these consolidated financial statements.

Basis of consolidation

Investments in companies in which we directly or indirectly hold more than 50% of the voting control are generally consolidated in our financial statements.

Entities in which we do not have a controlling interest but over which we have significant influence are accounted for under the equity method of accounting. Our share of after-tax earnings of equity method investees are reported under Share of results of unconsolidated associates.

A list of all significant consolidated subsidiaries is attached – see Appendix B.

Intercompany transactions and internal sales have been eliminated on consolidation.

Reclassifications

Certain amounts in the prior years' consolidated financial statements may be reclassified when necessary to conform to the current year presentation.

Going concern

At the date of this report, the industry is in the midst of an unprecedented combination of a global pandemic (Covid-19) coupled with a dramatic fall in oil prices. The Board of Directors and the management team of Archer have been working hard to assess and understand the impacts of this development on the business, and to identify mitigating factors that will ensure the company is able to withstand the current market conditions. Archer has a solid liquidity position following the refinancing of the company in April 2020 and does not face any significant loan maturities until the fourth quarter 2023. Due to the recent downturn in the market, management has implemented a plan to reduce costs and postpone investments, and will take further action if necessary, in order to safeguard liquidity for continued operation. The Directors and management team consider lasting low oil prices and lower oil production to constitute an uncertainty for the industry in general as well as for the company's ability to continue as a going concern.

The Board and management will continue to closely monitor the situation and is prepared to execute on management plans described above to ensure the long-term strength of the company. Based on the company's liquidity position and forecasted cash flows from operations, the Board confirms that the conditions for continued operation as a going concern are present for the company and the annual financial statement for 2019 has been prepared under this presumption

The Board believes the annual report provides a fair presentation of the Group's assets and debt, financial position and financial performance.

Note 2 — Accounting Policies

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Future events and their effects cannot be predicted with certainty. Accordingly, our accounting estimates require the exercise of judgment. While management believes the estimates and assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ materially from those estimates. Estimates are used for, but are not limited to, determining the following: allowance for doubtful accounts, recoverability of long-lived assets, goodwill and intangibles, useful lives used in depreciation and amortization, income taxes and valuation allowances and purchase price allocations. The accounting estimates used in the preparation of the consolidated financial statements may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes.

Revenue from contracts with customers

The activities that primarily drive the revenue earned from our drilling contracts include:

- Providing specialist crew for the operation of, or repair, maintenance or modifications of Customer's platform rigs;
- Providing land drilling rigs and modular rigs, and the crew and supplies necessary to operate the rigs;
- Mobilizing and demobilizing land rigs between well sites;
- Wireline services; and
- Rental of equipment.

Consideration received for performing these activities consist primarily of contract dayrates. We account for our integrated services as a single performance obligation that is (i) satisfied over time and (ii) comprised of a series of distinct time increments. Occasionally we receive lump mobilisation fees and fixed fees for engineering projects.

We recognize consideration for activities that correspond to a distinct time increment within the contract term in the period when the services are performed. We recognize consideration for activities that are (i) not distinct within the context of our contracts and (ii) do not correspond to a distinct time increment, rateably over the estimated contract term.

We determine the total transaction price for each individual contract by estimating both fixed and variable consideration expected to be earned over the term of the contract. The amount estimated for variable consideration may be constrained and is only included in the transaction price to the extent that it is probable that a significant reversal of previously recognized revenue will not occur throughout the term of the contract. When determining if variable consideration should be recognized, we consider whether there are factors outside of our control that could result in a significant reversal of revenue as well as the likelihood and magnitude of a potential reversal of revenue. We re-assess these estimates each reporting period as required. Refer to Note 3 - Revenue from Contracts with Customers.

Dayrate Drilling Revenue - Our contracts generally provide for payment on a dayrate basis, with higher rates for periods when the drilling unit is operating and lower rates or zero rates for periods when drilling operations are interrupted or restricted. The dayrate invoices billed to the customer are typically determined based on the varying rates applicable to the specific activities performed on an hourly basis. Such dayrate consideration is allocated to the distinct hourly increment it relates to within the contract term, and therefore, recognized in line with the contractual rate billed for the services provided for any given hour.

Mobilization Revenue - We may receive fees (on either a fixed lump-sum or variable dayrate basis) for the mobilization of our rigs. These activities are not considered to be distinct within the context of the contract and therefore, the associated revenue is allocated to the overall performance obligation and recognized rateably over the expected term of the related drilling contract. We record a contract liability for mobilization fees received, which is amortized rateably to contract drilling revenue as services are rendered over the initial term of the related drilling contract.

Demobilization Revenue - We may receive fees (on either a fixed lump-sum or variable dayrate basis) for the demobilization of our rigs. Demobilization revenue expected to be received upon contract completion is estimated as part of the overall transaction price at contract inception and recognized over the term of the contract. In most of our contracts, there is uncertainty as to the likelihood and amount of expected demobilization revenue to be received. For example, the amount may vary dependent upon whether or not the rig has additional contracted work following the initial contract. Therefore, the estimate for such revenue may be constrained, as described above, depending on the facts and circumstances pertaining to the specific contract. We assess the likelihood of receiving such revenue based on past experience and knowledge of the market conditions.

Revenues Related to Reimbursable Expenses - We generally receive reimbursements from our customers for the purchase of supplies, equipment, personnel services and other services provided at their request in accordance with a drilling contract or other agreement. Such reimbursable revenue is variable and subject to uncertainty, as the amounts received and timing thereof is highly dependent on factors outside of our influence. Accordingly, reimbursable revenue not recorded and not included in the total transaction price until the uncertainty is resolved, which typically occurs when the related costs are incurred on behalf of a customer. We are generally considered a principal in such transactions and record the associated revenue at the gross amount billed to the customer, at a point in time, as “Reimbursable revenues” in our Consolidated Statements of Operations.

Foreign currencies

For subsidiaries that have functional currencies other than the USD, the statements of operations are translated using the average exchange rate for the month and the assets and liabilities are translated using the year-end exchange rate. Foreign currency translation gains or losses are recorded as a separate component of other comprehensive income in shareholders’ equity.

Transactions in foreign currencies during the year are translated into the functional currency of the respective entity at the rates of exchange in effect on the date of the transaction. Foreign currency assets and liabilities are translated using rates of exchange at the balance sheet date. Foreign currency transaction gains or losses are included in the consolidated statements of operations.

Current and noncurrent classification

Assets and liabilities are classified as current assets and liabilities respectively, if their maturity is within one year of the balance sheet date. Assets and liabilities not maturing within one year are classified as long term, unless the facts or circumstances indicate that current classification is otherwise appropriate.

Cash and cash equivalents

Cash and cash equivalents consist of cash, demand deposits and highly liquid financial instruments purchased with an original maturity of three months or less and exclude restricted cash.

Restricted cash

Restricted cash consists mainly of bank deposits arising from advance employee tax withholdings.

Receivables

Accounts receivable are recorded in the balance sheet at their full amount less allowance for doubtful receivables. We establish reserves for doubtful receivables on a case-by-case basis. In establishing these reserves, we consider changes in the financial position of the customer, as well as customer payment history. Uncollectible trade accounts receivables are written off when a settlement is reached for an amount that is less than the outstanding historical balance or when they are considered irrecoverable. If a previously written off debt is subsequently recovered it is recorded as a credit to bad debt expense.

Net bad debt expense for 2019 was $0.2 million (2018: $0.5 million).

Inventories

Inventories are valued at the lower of first-in, first-out cost or market value. On a regular basis we evaluate our inventory balances for excess quantities and obsolescence by analysing demand, inventory on hand, sales levels and other information. Based on these evaluations, inventory balances are written down, if necessary.

Equity Method Investments

Investments in which we have the ability to exercise significant influence, but do not control, are accounted for under the equity method of accounting and are reported under Investments in unconsolidated associates in the Consolidated Balance Sheet. Significant influence is generally deemed to exist if the company has an ownership interest in the voting stock of the investee between 20% and 50%, although other factors such as representation on the investee’s Board of Directors and the nature of commercial arrangements are considered in determining whether the equity method of accounting is appropriate.

Under this method of accounting, our share of the net earnings or losses of the investee, together with other-than-temporary impairments in value and gain/loss on sale of investments, is reported under Share of gains/losses of unconsolidated associates in the Consolidated Statement of Operations.

We evaluate our equity method investments whenever events or changes in circumstance indicate that the carrying amounts of such investments may be impaired. If a decline in the value of an equity method investment is determined to be other than temporary, a loss is recorded in earnings in the current period.

Property, plant and equipment

Property, plant and equipment are recorded at historical cost less accumulated depreciation. The cost of these assets less estimated residual value is depreciated on a straight-line basis over their estimated remaining economic useful lives. The estimated economic useful lives of our fixed assets are in the following ranges:

- Buildings 3 – 40 years
- Drilling and well service equipment 2 – 30 years
- Office furniture and fixtures 3 – 10 years
- Motor vehicles 3 – 7 years

We evaluate the remaining useful life of our property, plant and equipment on a periodic basis to determine whether events and circumstances warrant a revision.

Expenditures for replacements or improvements are capitalised. Maintenance and repairs are charged to operating expenses as incurred.

Fully depreciated assets are retained in property, plant and equipment and accumulated depreciation until disposal. Upon sale or retirement, the cost of property and equipment, related accumulated depreciation and write-downs are removed from the balance sheet and the net amount, less any proceeds from disposal, is charged or credited to the consolidated statement of operations.

Assets under construction

The carrying value of assets under construction represents the accumulated costs at the balance sheet date and is included in property, plant and equipment on the face of the balance sheet. Cost components include payments for instalments and variation orders, construction supervision, equipment, spare parts, capitalised interest, costs related to first-time mobilization and commissioning costs. No charge for depreciation is made until commissioning of the new builds has been completed and it is ready for its intended use.

Finance Leases

We lease office space and equipment at various locations. Our Oiltools division also leases operating equipment which in turn is leased out to Archer customers. Where we have substantially all the risks and rewards of ownership, the lease is classified as a finance lease. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the future minimum lease payments. Each lease payment is allocated between the corresponding finance lease liability and finance charges so as to achieve a constant rate on the liability outstanding. The interest element of the capital cost is charged to the Consolidated Statement of Operations over the lease period.

Depreciation of assets held under capital leases is reported within “Depreciation and amortization expense” in the Consolidated Statement of Operations. Capitalised leased assets are depreciated on a straight-line basis over the estimated useful economic lives of the assets or a straight-line basis over the lease term, whichever is shorter.

Operating leases

Our operating leases relate to office and warehouse space, and some land rigs in Argentina, which do not meet the criteria to be classified as finance leases. We recognise on the balance sheet the right to use these assets and a corresponding liability in respect of all material lease contracts with duration, or lease term, of 12 months or above. We estimate discount rates used for calculating the cost of operating leases, which take into account the type of assets subject to the lease and the geographical region in which it is leased and used. The amortisation of right of use assets is presented in operating costs on our statement of operations.

In relation to our operating leases, prior periods were not restated to reflect the recording of the right of use asset/liability related to these leases

Intangible assets

Intangible assets are recorded at historical cost less accumulated amortization. The cost of intangible assets is generally amortised on a straight-line basis over their estimated remaining economic useful lives. The estimated economic useful lives of our intangible assets range from 2 to 20 years. We evaluate the remaining useful life of our intangible assets on a periodic basis to determine whether events and circumstances warrant a revision of the remaining amortization period. Once fully amortised, the intangible’s cost and accumulated amortization are eliminated.

Trade names under which we intend to trade for the foreseeable future are not amortised. In circumstances where management decides to phase out the use of a trade name, the relevant cost is amortised to zero over the remaining estimated useful life of the asset.

Acquired technology is not amortised until ready for marketing.

Goodwill

We allocate the cost of acquired businesses to the identifiable tangible and intangible assets and liabilities acquired, with any remaining amount being capitalised as goodwill. Goodwill is not amortised but is tested for impairment at least annually. We test goodwill by reporting unit for impairment on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The reporting units have been identified in accordance with Accounting Standards Codification 350-20 "Intangible Assets–Goodwill," as the business components one level below the reporting segments, each of which we identified as:

- constituting a business;
- for which discrete financial information is available; and
- whose operating results are reviewed regularly by segment management.

We aggregate certain components with similar economic characteristics.

The goodwill impairment test involves an initial qualitative analysis to determine whether it is more likely than not that the carrying value of our goodwill exceeds its fair value. If we conclude that our goodwill is more likely than not impaired, we continue with our analysis which involves a comparison of each reporting unit's fair value to its carrying value. If the reporting unit's fair value exceeds its carrying value no further procedures are required. However, if a reporting unit's fair value is less than its carrying value an impairment of goodwill may exist requiring a second step to measure the amount of impairment loss.

We estimate the fair value of each reporting unit using the income approach. The income approach incorporates the use of a discounted cash flow method in which the estimated future cash flows and terminal values for each reporting unit are discounted to a present value. Cash flow projections are based on management's estimates of economic and market conditions that drive key assumptions of revenue growth rates, operating margins and capital expenditures. The discount rate is based on our specific risk characteristics, its weighted average cost of capital and its underlying forecasts. There are inherent risks and uncertainties involved in the estimation process, such as determining growth and discount rates.

Impairment of long-lived assets and intangible assets other than goodwill

The carrying values of long-lived assets, including intangible assets that are held and used by us are reviewed for impairment if factors are identified that suggest that the carrying value may be more than the assets fair value. As prescribed by US GAAP, for step one of the impairment test, we assess our major assets/asset groups for recoverability of the carrying value of the asset by estimating the undiscounted future net cash flows expected to result from the asset, including eventual disposal. If the future net cash flows are less than the carrying value of the asset, an impairment charge is required. We then use various methods to estimate the fair value of our assets, using all and best available relevant data, including estimated discounted cash-flow forecasts, relevant market data where available, and independent broker valuations for our land rigs. Once the fair value has been determined, the potential impairment is recorded equal to the difference between the asset's carrying value and fair value.

Research and development

All research and development ("R&D") expenditures are expensed as incurred. Under the provisions of ASC 805, 'Business Combinations' acquired in-process R&D that meets the definition of an intangible asset is capitalised and amortised.

Income taxes

Archer is a Bermuda company. Under current Bermuda law, Archer is not required to pay taxes in Bermuda on either income or capital gains. We have received written assurance from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, Archer will be exempted from taxation until year 2035.

Certain of our subsidiaries operate in other jurisdictions where taxes are imposed, mainly Norway, the United States, Argentina, Brazil and the United Kingdom. For legal entities operating in taxable jurisdictions, we compute tax on income in accordance with the tax rules and regulations of the taxing authority where the income is earned. The income tax rates imposed by these authorities vary. Taxable income may differ from pre-tax income for accounting purposes. To the extent that differences are due to revenues or expense items reported in one period for tax purposes and in another period for financial accounting purposes, an appropriate provision for deferred taxes is made. A deferred tax asset is recognised only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilised. When it is more likely than not that a portion or all of a deferred tax asset will not be realised in the future, we provide a valuation allowance against that deferred tax asset. The amount of deferred tax provided is based upon the expected manner of settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

The impact of changes to income tax rates or tax law is recognised in periods when the change is enacted.

Significant judgment is involved in determining the provision for income taxes. There are certain transactions for which the ultimate tax determination is unclear due to uncertainty in the ordinary course of business. Our tax filings are subject to regular audit by the tax authorities in most of the jurisdictions in which we conduct our business. These audits may result in assessments for additional taxes which are resolved with the authorities or, potentially, through the courts. We recognise the impact of a tax position in our financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The level of judgment involved in estimating such potential liabilities and the uncertain and complex application of tax regulations, may result in liabilities on the resolution of such audits, which are materially different from our original estimates. In such an event, any additional tax expense or tax benefit will be recognised in the year in which the resolution occurs.

Earnings per share or EPS

Basic earnings per share are calculated based on the income/(loss) for the period available to common stockholders divided by the weighted average number of shares outstanding for basic EPS for the period, including vested restricted stock units. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments, for which we include share options and unvested restricted stock units.

Deferred charges

Loan-related costs, including debt arrangement fees, incurred on the initial arrangement are capitalised and amortised over the term of the related loan using the straight-line method, which approximates the interest method. Amortization of loan-related costs is included in interest expense. Subsequent loan costs in respect of existing loans, such as commitment fees, are recognised in the Consolidated Statement of Operations within “Interest expense” in the period in which they are incurred. Unamortised loan costs are presented as a reduction of the carrying value of the related debt.

Share-based compensation

We have established a stock option plan under which employees, directors and officers of the Archer Group may be allocated options to subscribe for new shares in Archer.

The fair value of the share options issued under our employee share option plans is determined at grant date, taking into account the terms and conditions upon which the options are granted and using a valuation technique that is consistent with generally accepted valuation methodologies for pricing financial instruments, and that incorporates all factors and assumptions that knowledgeable, willing market participants would consider in determining fair value. The fair value of the share options is recognised as personnel expenses with a corresponding increase in equity over the period during which the employees become unconditionally entitled to the options.

The Board has from time to time granted restricted stock units, or RSU’s, to members of Archer’s management team. The RSUs vest typically with 1/4th on each date falling approximately one, two, three and four years after grant date.

Compensation cost in respect of share options and RSUs is initially recognised based upon grants expected to vest with appropriate subsequent adjustments to reflect actual forfeitures. National insurance contributions will arise from such incentive programs in some tax jurisdictions. We accrue for estimated contribution over the vesting periods of the relevant instruments.

Financial instruments

From time to time, we enter into interest rate swaps in order to manage floating interest rates on debt. Interest rate swap agreements are recorded at fair value in the balance sheet when applicable. A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognised asset or liability may be designated as a cash flow hedge.

When the interest swap qualifies for hedge accounting we formally designate the swap instrument as a hedge of cash flows to be paid on the underlying loan, and in so far as the hedge is effective, the change in the fair value of the swap in each period is recognized in the “Accumulated other comprehensive loss” line of the Consolidated Balance Sheet. Changes in fair value of any ineffective portion of the hedges are charged to the Consolidated Statement of Operations in “Other financial items.” Changes in the fair value of interest rate swaps are otherwise recorded as a gain or loss under “Other financial items” in the Consolidated Statement of Operations where those hedges are not designated as cash flow hedges.

Discontinued operations

The disposal of a component of an entity or a group of components of an entity is reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results.

Segment reporting

A segment is a distinguishable component of the company that is engaged in business activities from which it earns revenues and incurs expenses, whose operating results are regularly reviewed by the chief operating decision maker and which is subject to risks and rewards that are different from those of other segments.

We are presenting our business under two reporting segments:

- Eastern Hemisphere
- Western Hemisphere

Western Hemisphere comprises our land drilling and related operations in Latin America, plus our Frac Valve producing facility in North America (which was sold during 2019) and our 28% interest in QES. The Eastern Hemisphere segment contains Platform Drilling operations in the North Sea, plus our global Oiltools and Wireline Service divisions In addition we report corporate costs, and assets as separate line items.

Segmental information is presented in Note 22.

The accounting principles for the segments are the same as for our consolidated financial statements.

Related party transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties also are related if they are subject to common control or common significant influence.

Recently issued accounting pronouncements

We adopted the following accounting standard updates ("ASUs") in the year:

ASU 2016-02 - Leases (also 2019-01, 2019-10, 2019-11. 2019-20)

On January 1, 2019, we adopted ASC Topic 842 which revises accounting for leases. Under the new guidance we are required to recognize right-of-use assets and lease liabilities on our balance sheet, for substantially all leases. The new standard required lessees and lessors to classify most leases as either finance or operating using principles similar to previous lease accounting. The income statement recognition is also similar to previous lease accounting.

We have elected the following transition practical expedients, which were applied consistently to all leases that commenced before January 1, 2018:

1. We did not reassess whether any expired or existing contracts are or contain leases.
2. We did not reassess the lease classification for any expired or existing leases.
3. We did not reassess initial direct costs for any existing leases.
4. We did use hindsight in determining the lease term and in assessing impairment of the right-of-use assets.

The adoption of this standard resulted in the recognition of operating lease right of use assets and corresponding lease liability of $51.0 million at January 1, 2019.

Prior to January 1, 2019 we recognized lease expenses in accordance with the then-existing USGAAP (“Prior GAAP”). Because both ASC 842 and prior GAAP generally recognise operating lease expenses on a straight line basis over the term of the lease arrangement, there was no material differences between the timing and amount of lease expenses recognised under the two accounting methodologies, however the expenses, under the new methodology represent interest on the lease liability and amortisation of the right of use assets.

We have also elected, as an accounting policy not to apply the provisions of ASC 842 to short term leases (leases with an original term of twelve months or less).

ASU 2017-12 Derivatives and Hedging

In July 2017, the FASB issued ASU 2017-12 which is intended to align the results of the cash flow and fair value hedge accounting with the risk management activities of an entity. The amendments expand the hedge accounting for both financial and non-financial risk components and they reduce the operational burden of applying hedge accounting. The amendment enables the financial statements to reflect accurately the intent and outcome of an entity’s hedging strategies. The standard is effective for fiscal years beginning after December 15, 2018. The adoption of the standard has not had any material impact on our financial statements as we do not currently apply hedge accounting to any of our derivatives.

Accounting Standards Updates, not yet adopted

ASU 2018-13 Fair Value Measurement - Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued ASU 2019-13, Fair Value Measurement (Topic 820): which is intended to streamline the disclosure requirements on fair value measurements. Disclosures such as the amounts and reasons for transfers between Level 1 and Level 2 fair value hierarchy, and the valuation process for Level 3 fair value measurements were removed. Additional disclosures such as disclosure about changes in unrealised gains and losses included in other comprehensive income for Level 3 fair value measurements, the range and weighted average of significant unobservable inputs used for Level 3 fair value measurements are required to be reported by public entities. The accounting update is effective January 1 2020 and the adoption of the accounting standard is not expected to have any material impact on our consolidated financial statements.

ASU 2016-13 - Financial Instruments - Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which revises guidance for the accounting for credit losses on financial instruments within its scope. The new standard introduces an approach, based on expected losses, rather than incurred losses, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. Using the new model, known as the current expected credit loss (or CECL) model and entity is required to recognise as an allowance its estimate of expected credit losses. Unlike the previous guidance, the CECL model does not specify a threshold for the recognition of an impairment allowance.

Credit impairment will be recognised as an allowance or contra-asset rather than a direct write down of the amortised cost basis of a financial asset. However, the carrying amount of a financial asset that is deemed to be uncollectable will be written off in a manner constant with existing standards. Upon adoption, a cumulative effect adjustment is required to the retained earnings as of the beginning of the first reporting period in which the guidance is effective. We will adopt standard effective January 1, 2020. Our customers are international oil companies, national oil companies and large independent oil companies. Our financial assets are primarily held with counter parties with high credit standing and we have historically had a low incidence of bad debt expense. Therefore, we do not expect a material adjustment on the initial the adoption of this guidance.

Accounting standard updates issued by the FASB

The FASB have issued several further updates not included above. We do not currently expect any of these updates to materially affect our consolidated financial statements and related disclosures either on transition or in future periods.

Note 3 — Revenue from contracts with customers

The following table provides information about receivables, contract assets and contract liabilities from our contracts with customers:

(In $ millions)	December 31, 2019	December 31, 2018
Accounts receivable net	145.4	137.0

Practical expedient - We have applied the disclosure practical expedient in ASC 606-10-50-14A(b) and have not included estimated variable consideration related to wholly unsatisfied performance obligations or to distinct future time increments within our contracts, including dayrate revenue. The duration of our performance obligations varies by contract.

Note 4 — Restructuring costs

In 2018 and 2019 we have continued our focus on cost reductions. We continued to downsize our operations in Argentina according to current reduced levels of activity, rationalise our corporate function, and consolidate office facilities, closing offices in UAE, the United States and the United Kingdom. In total we expensed $9.6 million in connection with our restructuring actions in 2019 and $16.4 million in 2018 the amounts being included in operating expenses.

An analysis of these costs is tabulated below:

($ in millions)	Year ended December 31, 2019		Year ended December 31, 2018	
	Severance costs	Other costs	Severance costs	Other costs
Eastern Hemisphere	-	0.3	0.2	0.4
Western Hemisphere	9.3	-	16.2	(0.4)
Total	9.3	0.3	16.4	-

At December 31 2019, and 2018, we have provided for the following restructuring costs:

$ in millions	**2019**	**2018**
Severance costs	2.9	3.0
Total	**2.9**	**3.0**

Note 5 — Impairments

Our long-lived assets predominantly consist of Land drilling rigs and equipment utilised by our Land drilling division in South America, and our two modular rigs. The carrying values of these assets are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a particular asset, or group of assets, may not be fully recoverable, and at least once each year as part of our annual reporting routine.

In 2019 we have recognised total impairment charges of $1.8 million in respect of land drilling rigs and equipment utilised in our Land drilling division in Latin America. Our test of our most significant fixed assets, conducted during the fourth quarter of 2019, involved a two-step process. The recoverability of the carrying values was first compared to total expected future cash flows expected to be generated by the assets. Where step one indicated that the carrying value may not be fully recoverable, a second exercise compared carrying values with estimated fair values in order to quantify any impairment loss.

As stated in our accounting policy, we use various methods to estimate the fair value of our assets, each of which involves significant judgement. We use the most relevant data available at the balance sheet date, including specific independent valuations for our land rigs. The key inputs and assumptions used in the various valuations included future market growth rates, EBITDA margins, discount factors and asset lives. Reasonable variations in these assumptions could give rise to additional impairment, particularly in relation to the modular rigs and the Latin America drilling rigs.

Whilst acknowledging the uncertainty and the level of judgment involved in our estimates of value, we believe our determination of impairment charges to be reasonable and prudent as at 31, December 2019.

Events since the balance sheet date, namely the drop in Oil price and the Coronavirus pandemic may have a detrimental effect on the value of our assets. We shall review our carrying values during the first half of 2020 and we will adjust values by an impairment charge if it is deemed appropriate in 2020.

In 2018 we recognised total impairment charges of $1.1 million in respect of land drilling rigs and equipment utilised in our Land drilling division in Latin America.

Please refer to Note 13 for further details on the calculation of goodwill impairments.

Note 6 — Other Financial Items

	YEARS ENDED DECEMBER 31	
($ in millions)	**2019**	**2018**
Foreign exchange loss	(15.6)	(18.6)
Other items, net	(1.7)	4.3
Total other financial items, net	**(17.3)**	**(14.3)**

Foreign exchange gains and losses relate in the main to an intercompany loan balance denominated in Norwegian Kroner. The intercompany loan receivable is held in a USD functional entity, while the corresponding intercompany debt is held in a Norwegian Kroner functional entity. The financial impact on the entity with a Norwegian Kroner functional currency is classified as other comprehensive income.

Note 7 — Income Taxes

Our income tax consists of the following:

	YEARS ENDED DECEMBER 31	
($ in millions)	**2019**	**2018**
Current tax expense	6.8	2.2
Deferred tax benefit	(10.4)	(16.8)
Total income tax benefit, net	**(3.6)**	**(14.6)**

Tax benefit is impacted by the de-recognition of deferred tax assets which we do not expect to be able to utilise within the foreseeable future. We have booked valuation allowances against deferred tax relating to net operating losses and foreign tax credits in Argentina, Brazil, Canada and North America, and other timing differences in Norway and the UK.

The company, including its subsidiaries, is taxable in several jurisdictions based on its operations. A loss in one jurisdiction may not be offset against taxable income in another jurisdiction. Thus, the company may pay tax within some jurisdictions even though it might have losses in others.

Income tax expense / (benefit) can be split in the following geographical areas:

	YEARS ENDED DECEMBER 31	
($ in millions)	**2019**	**2018**
North America	0.7	1.3
South America	(5.6)	(7.0)
Europe	1.5	(9.7)
Others	0.2	0.8
Total	**(3.6)**	**(14.6)**

The income taxes for the years ended December 31 2019 and 2018 differed from the amount computed by applying the statutory income tax rate in Bermuda, of 0% as follows:

	YEARS ENDED DECEMBER 31	
($ in millions)	**2019**	**2018**
Income taxes at statutory rate	-	-
Taxable losses at local tax rate from continuing operations*	(19.0)	(23.1)
Effect of impairment charges	9.5	0.2
Effect of other non-deductible expenses	2.0	3.7
Effect of share of losses of unconsolidated associates	0.2	0.1
Effect of non-deductible interest	7.8	-
Effect of tax exempted income and credits	(3.2)	
Effect of tax and exchange rate on temporary movements	(2.7)	3,3
Effect of valuation allowances	(4.2)	-
Effect of adjustments from prior years	1.9	(0.1)
Effect of state and withholding taxes	4.1	1.4
Actual tax (benefit)/expense recognized	**(3.6)**	**(14.6)**

**Figures exclude non-taxable income in Bermuda (net gain of $25.0 million, 2018: $61.2 million)*

Deferred Income Taxes

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognised for financial reporting purposes and such amounts recognised for tax purposes. The net deferred tax assets consist of the following:

	DECEMBER 31	
($ in millions)	**2019**	**2018**
Pension	0.1	0.2
Tax losses carry forward	901.2	984.3
Impairments of tangible and intangible assets	1.8	(5.7)
Property differences	112.2	14.2
Provisions	19.4	12.2
Other	108.2	31.2
Gross deferred tax asset	**1,142.9**	**1,036.3**
Net deferred tax asset basis before valuation allowance	**1,142.9**	**1,036.3**
Valuation allowance	(1,007.2)	(926.6)
Net deferred tax asset basis	135.8	109.7
Net deferred tax asset	**28.2**	**24.1**

Tax losses carry forward of $901.2 million shown in the table above, principally relates to carried forward tax losses of $772.8 million originating in the United States, and which expire over a period of 20 years, and tax losses of $48.1 million originating in Brazil. The Brazilian tax losses can be carried forward indefinitely.

Overall, deferred tax assets increased in 2019 due to additional tax losses incurred in 2019, mainly in Argentina North and UK, For tax losses incurred in 2019 for the South of Argentina, Canada and in the United States increase in deferred tax assets are offset by an increase in the valuation allowance, resulting in no net effect in the 2019 financial statements.

In total, the valuation allowance is a provision against deferred tax assets relating to tax operating losses, foreign tax credits and excess tax values on drilling equipment, for which we do not, at the balance sheet date, have a sufficiently documented tax strategy for realisation against future tax liabilities.

Deferred taxes are classified as follows:

	DECEMBER 31	
($ in millions)	**2019**	**2018**
Deferred tax asset	30.5	26.9
Deferred tax liability	(2.3)	(2.8)
Net deferred tax asset	**28.2**	**24.1**

No provision has been made in respect of deferred tax on unremitted earnings from subsidiaries (2018: $Nil). No tax would be expected to be payable if unremitted earnings were repatriated to the ultimate parent.

The Group operates in a number of jurisdictions and its tax filings are subject to regular audit by the tax authorities. The Group's principal operations are located in Argentina, Brazil, Malaysia, Norway and the UK with the earliest periods under audit or open and subject to examination by the tax authorities, within these jurisdictions, being 2014, 2015, 2016, 2017, 2018 and 2019.

As in previous years, all benefits and expenses in relation to uncertain tax positions have been analysed in terms of quantification and risk, and we have provided for uncertain benefits and expense where we believe is more likely than not that they will crystalize.

The Group's accounting policy is to include interest and penalties in relation to uncertain tax positions within tax expense. Withholding taxes are expensed as and when withheld, and are credited to the income statement if and when recovered.

Note 8 — Earnings Per Share, or EPS

The components for the calculation of basic EPS and diluted EPS and the resulting values are as follows:

	NET LOSS *($ in millions)*	WEIGHTED AVERAGE SHARES OUTSTANDING	LOSS PER SHARE (IN $)
2018			
Basic loss per share from continuing operations	(53.0)	147,428,948	(0.36)
Effect of dilutive options *	—	-	—
Diluted gain per share	(53.0)	147,428,948	(0.36)

	NET LOSS *($ in millions)*	WEIGHTED AVERAGE SHARES OUTSTANDING	LOSS PER SHARE (IN $)
2019			
Basic loss per share from continuing operations	(47.7)	147,607,069	(0.32)
Effect of dilutive options *	—	-	—
Diluted gain per share	(47.7)	147, 607,069	(0.32)

* Share-based compensation of approximately 939,941 and 269,753 shares were excluded from the computation of diluted earnings per share for the year ended 2018 and 2019 respectively, as the effect would have been anti-dilutive due to the net loss for the period.

Note 9— Inventories

Our inventories include the following:

	DECEMBER 31	
($ in millions)	**2019**	**2018**
Manufactured:		
Raw materials	3.3	3.4
Finished goods	8.0	4.9
Work in progress	0.2	0.6
Total manufactured	**11.5**	**8.9**
Drilling supplies	16.4	15.2
Chemicals	0.4	2.1
Other items and spares	24.7	25.7
Total inventories	**53.0**	**51.9**

Note 10 — Other Current Assets

Our other current assets include:

	DECEMBER 31	
($ in millions)	**2019**	**2018**
Prepaid expenses	6.1	7.6
VAT and other taxes receivable	7.6	8.9
Other short term receivables	9.9	7.0
Total other current assets	**23.6**	**23.5**

Note 11 — Investments in Unconsolidated Associates

We have the following participation in investments that are recorded using the equity method:

	2019	2018
C6 Technologies AS	50.0%	50.0%
Rawabi Archer Company (Previously Rawabi Allis-Chalmers Company Ltd.)	50.0%	50.0%
Quintana Energy Services Inc.	28.1%	28.1%

The carrying amounts of our equity method investments are as follows:

	DECEMBER 31	
($ in millions)	2019	2018
C6 Technologies AS	—	—
Rawabi Archer Company	—	—
Quintana Energy Services Inc.	21.3	57.0
Total investments in unconsolidated associates	**21.3**	**57.0**

The components of investments in unconsolidated associates are as follows:

($ in millions)			2019	
	QES	C6	Rawabi	Total
Net book balance at beginning of year	57.0	-	-	57.0
Additional capital investment	-	1.3	-	1.3
Share in results of associates	(7.8)	(1.3)	-	(9.1)
Impairment of investment in affiliate	(27.9)	-	-	(27.9)
Carrying value of investment at end of year	21.3	-	-	21.3
Carrying value of loan to affiliate at end of year	-	10.0	-	10.0

($ in millions)			2018		
	QES	C6	Rawabi	TAQA	Total
Net book balance at beginning of year	74.3	-	-	8.3	82.6
Additional capital investment	10.0	-	-	-	10.0
Share of results of associates	(5.2)	0.8	-	-	(4.4)
Conversion of loan balance	10.7	-	-	-	10.7
Adjustment to carrying value as a result of IPO	2.3	-	-	-	2.3
Allocation of investment to settle trading balances	-	-	-	(2.7)	(2.7)
Final cash distribution on liquidation	-	-		(5.4)	(5.4)

Impairment of investment in associates and other write-offs/adjustments	(35.1)	(0.8)	-	(0.2)	(36.1)
Carrying value of investment at end of year	57.0	-	-	-	57.0
Carrying value of loan to associate at end of year	-	9.5	-	-	9.5

Quoted market prices for C6 Technologies AS, Rawabi Archer Company, and TAQA are not available because the shares are not publicly traded.

Investment in QES

Since the IPO in February 2018, QES's shares have been quoted on the New York Stock exchange. Shares were valued at $10 per share at the time of the IPO. The fall in the share price following the IPO has led us to regularly consider whether the carrying value of our investment is impaired. This exercise resulted in an impairment charge of $35.1 million at December 31, 2018. At September 30, 2019, following continued depression of the QES share price, we recognised another impairment charge of $27.9 million. Following the impairment, our carrying value of QES shares was $2.2 per share.

Summarised financial information for QES is detailed in the table below:

($ in millions)	At December 31 2019	At December 31 2018
Current assets	118.0	160.1
Non-current assets	122.5	164.4
Current liabilities	71.2	89.5
Non-current liabilities	37.1	33.2

	Year ended December 31, 2019	Year ended December 31, 2018
Total revenue	484.3	604.4
Operating loss	71.7	5.7
Net loss	75.4	18.2

Investment in C6 Technologies AS

In addition to our capital investment in C6 Technologies AS, we have made an additional investment by way of a loan which, at December 31, 2019, had a carrying value of $10.0 million (2018 $9.5 million). During 2019 we invested a further $2.0 million in C6 under the loan agreement. Our equity share of the losses incurred by C6 in 2019 is greater than the remaining carrying value of our capital investment. We have applied the remaining share of the losses as a reduction of the carrying value of this loan due from the entity. At December 31, 2019 we believe the remaining carrying value of our investment in C6 is recoverable. Events since the balance sheet date, namely the drop in Oil price and the Coronavirus pandemic may have a detrimental effect on the value of our investment and we will adjust the value by an impairment charge if it is deemed appropriate in 2020.

Investment in Rawabi Archer Company Ltd.

Rawabi Archer Company Ltd., or Rawabi, is a joint venture with an unrelated Saudi Arabian company, Rawabi Holding Company Ltd. The joint venture was formed, to provide oilfield services, including directional drilling, tubular services, underbalanced services, production services, and rental, drilling and completion services in Saudi Arabia. Currently, the joint venture is providing rental, fishing, milling and thru tubing services in Saudi Arabia.

We have determined that Rawabi is a variable interest entity under the terms of the joint venture agreement that does not allow either shareholder, acting alone, to control the entity's operations. While we are not the primary beneficiary under the joint venture agreement, we are able to materially influence the operational and financial decisions of Rawabi and have accounted for our investment using the equity method.

In 2012, the carrying value of our investment in Rawabi was impaired to zero due to sustained historical losses. The entity has had limited activity.

Note 12 — Property Plant and Equipment

($ in millions)	OPERATIONAL EQUIPMENT	OTHER FIXED ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
As of December 31, 2019				
Cost	868.1	31.9	10.7	910.7

Accumulated depreciation and impairments	(510.9)	(25.9)	-	(536.8)
Net book value	**357.2**	**5.0**	**10.7**	**373.9**
Depreciation for 2019	49.5	0.9	-	50.4
As of December 31, 2018				
Cost	851.0	31.0	3.0	885.0
Accumulated depreciation and impairments	(466.5)	(26.0)	-	(492.5)
Net book value	**384.5**	**5.0**	**3.0**	**392.5**
Depreciation for 2018	53.9	1.0	-	55.7

Operational equipment includes drilling and well services equipment. Included in the cost of operational equipment is $25.3 million in respect of assets held under capital leases (2018: $25.3 million). Other fixed assets include land and buildings, office furniture and fixtures, and motor vehicles. At December 31, 2019, $5.3 million of fixed assets have been pledged in respect of finance agreements for their acquisition (2018: $1.6 million).

During 2019 we recognised total impairment losses of $1.8 million relating to rigs and land drilling equipment in our South American business (2018: $1.1 million). Step one of our testing of our two modular rigs, which uses expected undiscounted cash flows, indicated that the rigs are not impaired. We reached a similar conclusion in our testing for 2018.

The testing for impairment of our modular rigs, and other long lived assets, involves significant judgment and assumptions to be made in connection with the future performance of the various components of our business operations, including assumptions about future cash flows, discount rates applied to these cash flows and current market estimates of value. Based on the uncertainty of future revenue growth rates and other assumptions used to estimate our assets' fair value and future reductions in our expected cash flows, current market conditions worsening or persisting for an extended period of time could lead to future material non-cash impairment charges in relation to our major assets.

The carrying value of our assets may be adversely affected by the drop in oil price and effect of the Coronavirus pandemic. These subsequent events do not require us to reassess carrying values at December 31, 2019, We will review our asset values in early 2020 and adjust via impairment charges if appropriate.

Note 13 — Goodwill

Goodwill represents the excess of purchase price over the fair value of tangible and identifiable intangible assets acquired, which relates primarily to intangible assets pertaining to the acquired workforce and expected future synergies.

($ in millions)		**2019**			**2018**	
	Asset value	Impairment	**Net Value**	Asset value	Impairment	**Net Value**
Value at beginning of year	857.1	(684.5)	172.6	866.4	(684.5)	181.9
Currency adjustments	(1.5)	-	(1.5)	(9.3)	-	(9.3)
Net book balance at end of year	**855.6**	**(684.5)**	**171.1**	**857.1**	**(684.5)**	**172.6**

We test goodwill for impairment on an annual basis during the fourth quarter and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

The testing of the valuation of goodwill can involve significant judgment and assumptions to be made in connection with the future performance of the various components of our business operations, including assumptions about future cash flows of each reporting unit, discount rates applied to these cash flows and current market estimates of value. Based on the uncertainty of future revenue growth rates, gross profit performance, and other assumptions used to estimate our reporting units' fair value, future reductions in our expected cash flows, should current market conditions worsen or persist for an extended period of time, could lead to a future material non-cash impairment charge in relation to our remaining goodwill.

In 2019, our initial qualitative analysis of possible indicators of impairment of our goodwill did not lead to a conclusion that it was more likely than not that the carrying value of our goodwill relating to our platform drilling and oiltools reporting units was impaired. The main factors which lead us to this conclusion were

- The upturn in the Oilfield service sector, during 2019, with a steadily increasing oil price, and our solid contract backlog within the North Sea, driven by the Platform Drilling division where we secured significant key contract renewals and expansion during 2019, and
- The significant headroom indicated by our prior year testing in respect of our remaining goodwill;

At December 31, 2019, the remaining $44.5 million of our goodwill is allocated to our wireline reporting unit, which reported lower than forecast results for 2019 and a reduction in its 2020 forecast. As a result of these indicators we performed a step one quantitative test on the carrying value of this element of our goodwill balance which involved an estimation of the fair value of this reporting unit using discounted cash flows. The results of the quantitative test supported our carrying values and no impairment charge was recognised in 2019.

As mentioned above, the carrying value of our assets may be adversely affected by the drop in oil price and effect of the Coronavirus pandemic which have occurred since December 31, 2019. These subsequent events do not require us to reassess carrying values at December 31, 2019, however, we will review our asset values in early 2020 and adjust via impairment charges if appropriate.

Note 14 — Other Noncurrent Assets

Our other noncurrent assets are composed of the following:

($ in millions)	DECEMBER 31	
	2019	**2018**
Deferred mobilisation costs	6.8	-
Other	6.4	7.1
Total other noncurrent assets	**13.2**	**7.1**

The deferred mobilisation costs relate to the recommissioning of one of our modular rigs which will be recommissioned in 2020. Some of the costs will be attributed to costs of enhancement of the rig, and amortised over the remaining useful life of the rig. The balance will be amortised over the contract period.

Note 15 — Debt

	December 31, 2019			**December 31 2018**		
(In millions)	Loan balance	Unamortized debt issuance costs	Long-term debt less unamortized debt issuance costs	Loan balance	Unamortized debt issuance costs	Long-term debt less unamortized debt issuance costs
Multicurrency term and revolving facilities	515.0	(0.6)	514.4	510.0	(1.6)	508.4
Related party subordinated convertible loan	58.3	-	58.3	58.3	-	58.3
Hermes-covered term loan	23.9	(0.1)	23.8	24.5	(0.3)	24.2
Other loans and capital lease liability	17.2	-	17.2	15.1	-	15.1
Total loans and capital lease liability	**614.4**	**(0.7)**	**613.7**	**607.9**	**(1.9)**	**606.0**
Less: current portion	(548.8)	0.7	(548.1)	(5.8)	1.1	(4.7)
Long-term portion of interest bearing debt	**65.6**	**-**	**65.6**	**602.1**	**(0.8)**	**601.3**

Multicurrency term and revolving credit facility

The total amount available under the Multicurrency term and revolving credit facility (the “Facility”) is $610.8 million, split between $372.8 million under a term loan and $238.0 million in a revolving facility. A total of $23.4 million of the Facility was carved out during the second quarter of 2018 to two overdraft facilities, each of $ 11.7 million. A total of $515.0 million was drawn as at December 31, 2019 under the Facility and $95.8 million remained available. The Facility is secured by pledges over shares in material subsidiaries, assignment over intercompany debt and guarantees issued by the material subsidiaries.

At September 30, 2019 the facility was reclassified as short term finance as the loan was due to mature by September, 30 2020. We have, since the balance sheet date agreed a refinancing arrangement with our lenders which is detailed in our subsequent events note 26.

The interest payable on the Facility is the aggregate of 1, 3 or 6 month NIBOR, LIBOR or EURIBOR, plus between 2.25% and 4.35% per annum, depending on the ratio of the net interest bearing debt to EBITDA. In the event our total consolidated net interest bearing debt, after adjustments of the related party subordinated convertible loan amount, exceeds 6.0x the last twelve months Nominal EBITDA (EBITDA before exceptional items) measured at December 31, 2019 and/or August 31, 2020, the loan will accrue an additional 1% PIK margin for 2019 and/or part of 2020. In March 2020 quarterly instalments of $10 million commence and the final maturity date of the Facility is September 30, 2020.

The Facility contains certain financial covenants, including, among others:

- Archer will ensure that the 12 months rolling Nominal EBITDA (adjusted for certain fx effects) of the Group is at least $65 million in 2019 and $85 million in 2020.
- Archer shall ensure that the 12 months rolling EBITDA (as reported) for the Group is positive.
- Archer shall maintain $30 million in freely available cash (including undrawn committed credit lines).
- Archer shall ensure that the capital expenditures shall not exceed $40 million per year.

The Facility contains events of default which include payment defaults, breach of financial covenants, breach of other obligations, breach of representations and warranties, insolvency, illegality, unenforceability, curtailment of business, claims against an obligor’s assets, appropriation of an obligor’s assets, failure to maintain exchange listing, material adverse effect, repudiation and material litigation. In addition there are cross default clauses in the event of the obligor defaulting on other issued debt.

As of December 31, 2019, the company was in compliance with all covenants as agreed with its lenders under this Facility.

We completed the refinancing of this facility with our lenders in 2020, as described in our Subsequent events Note 26

Related party subordinated loan

We established a subordinated convertible loan with face value of $45 million in Q2 2017 from Seadrill Ltd., or Seadrill. The loan matures on December 31, 2021, and bears PIK interest of 5.5% per year. The conversion rights attached to the loan are exercisable from January 1, 2021, and entitle Seadrill to convert the debt at a rate of 0.48 ordinary shares in Archer for each $1.00 of loan and accrued interest.

Under the USGAAP provisions, interest up to the maturity date has been accrued to the loan balance, increasing the book value of the loan form $45 million to $58.3 million.

In 2020 we have re-negotiated the terms of the subordinated loan, the details of which are reported in note 26, Subsequent events.

Hermes-covered term loan

On December 6, 2013 Archer Topaz Limited, a wholly owned subsidiary of Archer, signed a €48.4 million Hermes covered term loan agreement for the financing of the modular rig, Archer Topaz. The loan matures September 2020, and contains covenants aligned to those of the multi-currency term loan and revolving credit facility. The interest rate applied to this loan is 1.45% above EURIBOR. At December 31, 2019 the equivalent of $23.9 million was outstanding under this facility. This loan is also subject to the renegotiation described in our Subsequent events note 26

Other loans and capital leases

We have two $11.7 million overdraft facilities and at December 31, 2019, net borrowing under these facilities amounted to $6.2 million.

At December 31, 2019 we have borrowed $4.5 million under a long term facility in Argentina, and in Bolivia we have borrowed a further $1.0 million under local short term facilities.

We have finance arrangements relating to equipment in our Oiltools and Platform Drilling divisions. At December 31, 2019, the balance due under these arrangements was $5.4 million.

Our outstanding interest bearing debt as of December 31, 2019, is repayable as follows:

($ in millions)	CAPITAL LEASE	OTHER DEBT	TOTAL
Year ending December 31			
2020	1.1	547.4	548.5
2021	1.0	60.3	61.3
2022	0.9	0.6	1.5
2023 and thereafter	2.4	-	2.4
Total debt	**5.4**	**608.3**	**613.7**

Note 16 — Other Current Liabilities

Our other current liabilities are comprised of the following:

	DECEMBER 31	
($ in millions)	**2019**	**2018**
Accounts payable	45.2	45.5
Accrued restructuring costs	2.8	3.0
Accrued expenses and prepaid revenues	85.5	80.6
Taxes payable	(1.8)	0.2
VAT, employee and other taxes	28.4	24.3
Other current liabilities	2.2	-
Total other current liabilities	**162.3**	**153.6**

Note 17 — Commitments and Contingencies

Purchase commitments

As of December 31, 2019, we have committed to purchase obligations including capital expenditures amounting to $14.3 million, (2018: $3.3 million). During 2018 we significantly reduced our expenditure, both capital and operational, in response to the depressed market conditions within the oil and gas industry. With the upturn in our industry sector experiences in 2019 we have increased our spending in line with increased business opportunities, especially with regard to our two modular rigs which have been re-commissioned in 2020 after a prolonged period of standing idle.

Legal Proceedings

From time to time, we are involved in litigation, disputes and other legal proceedings arising in the normal course of our business. We insure against the risks arising from these legal proceedings to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. If there is a claim, dispute or pending litigation in which we believe a negative outcome is probable and a loss by the company can be reasonably estimated, we record a liability for the expected loss. As of December 31, 2019, we are not aware of any such expected loss which would be material to our financial position and results of operations. In addition we have certain claims, disputes and pending litigation in which we do not believe a negative outcome is probable or for which the loss cannot be reasonably estimated.

Other than the above, we are not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) which may have, or have had in the recent past, significant effects on our financial position or profitability.

Note 18 — Share Capital

	DECEMBER 31			
	2019		2018	
	All shares are common shares of $0.01 par value each		*All shares are common shares of $0.01 par value each*	
	SHARES	$ MILLION	SHARES	$ MILLION
Authorized share capital	1,000,000,000	10.0	1,000,000,000	10.0
Issued, outstanding and fully paid share capital	148,050,298	1.5	147,462,012	1.5

Archer shares are traded on the Oslo Stock exchange under the symbol “ARCHER.OL.”

The Board have indicated that no dividend will be distributed in respect of the results for the financial year 2019.

Note 19 — Share Option Plans

We have granted share options to our senior management and directors that provide the management with the right to subscribe for new shares. The options are not transferable and may be withdrawn upon termination of employment under certain conditions. Options granted under the scheme will vest at a date determined by the Board of Directors. The options granted under the plan vest over a period of one to five years.

As of December 31, 2019, Archer has two active option programs.

The following summarises share option transactions related to the Archer programs in 2019 and 2018:

	2019		2018	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE - NOK	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE - NOK
Outstanding at beginning of year	**1,469,433**	**30.00**	**1,532,433**	**31.28**
Forfeited/expired	(819,432)	42.32	(63,000)	66.16
Outstanding at end of year	**650,001**	**14.45**	**1,469,433**	**30.00**
Exercisable at end of year	450.001	16.43	669,433	53.89

No income was received in 2019 as a result of share options being exercised (2018: $ nil).

Options issued under the 2014 Program may be exercised up to March 1, 2020. The exercise price is between NOK 62.00 and NOK 71.80 per share, and may be exercised one third each year beginning twelve months after they were granted. At December 31, 2019, all 50,001 options outstanding under the 2014 Program were exercisable.

Options issued under the 2018 Program may be exercised up to March 1, 2022. The exercise price is NOK 10.00 per share, and may be exercised one third each year beginning twelve months after March 1, 2019. At December 31, 2019, 600,000 options were outstanding under the 2018 Program and 400,000 of the options were exercisable.

The weighted average remaining contractual life of outstanding options is 24 months (2018: 34 months).

We pay the employers’ national insurance contributions related to the options, while the option holders will be charged for the individual income taxes.

When stock options are exercised we usually settle the obligation by issuing new shares.

Valuation:

We use the Black-Scholes pricing model to value stock options granted. The fair value of options granted is determined based on the expected term, risk-free interest rate, dividend yield and expected volatility. The expected term is based on historical information of past employee behaviour regarding exercises and forfeiture of options. The risk-free interest rate assumption is based upon the published Norwegian treasury yield curve in effect at the time of grant for instruments with a similar life. The dividend yield assumption is based on history and expectation of dividend pay-outs.

We use a blended volatility for the volatility assumption, to reflect the expectation of how the share price will react to the future cyclicality of our industry. The blended volatility is calculated using two components. The first component is derived from volatility computed from historical data for a period of time approximately equal to the expected term of the stock option, starting from the date of grant. The second component is the implied volatility derived from our "at-the-money" long-term call options. The two components are equally weighted to create a blended volatility.

We did not grant any new options in 2019 or 2018.

Restricted Stock units

The Board has from time to time granted restricted stock units, or RSU's, to members of Archer's management team. The RSUs typically vest, 33% on each of the dates falling approximately one, two and three years after the grant date. At December 31, 2019 a total of 4,157,364 RSUs was outstanding.

RSU awards do not receive dividends or carry voting rights during the performance period. The fair value of the restricted stock award is the quoted market price of Archer's stock on the date of grant.

The following table summarizes information about all restricted stock transactions:

	2019		2018	
	RSU's	Weighted average grant date fair value NOK	RSU's	Weighted average grant date fair value NOK
Unvested at beginning of year	**2,266,400**	7.21	**333,750**	5.56
Granted	2,980,750	3.91	2,128,900	7.22
Vested/released	(724,952)		(181,000)	
Forfeited	(364,834)		(15,250)	
Unvested at end of year	**4,157,364**	4.97	**2,266,400**	7.21

Accounting for share-based compensation

The fair value of the share options and RSUs granted is recognised as personnel expenses. During 2019, NOK 8.2 million ($0.9 million) has been expensed in our Statement of Operations ($0.7 million in 2018).

As of December 31, 2019, total unrecognised compensation costs related to all unvested share-based awards totalled NOK 10.4 million ($1.2 million), which is expected to be recognised as expenses in 2020, 2021 2022 and 2023 of, NOK 5.6 million ($0.6 million) NOK 2.9 million ($0.3million), NOK 1.3 million ($0.2 million) and NOK 0.5 million ($0.1 million), respectively.

Note 20 — Pension Benefits

Defined Contributions Plans

We contribute to a private defined contribution pension plan for our UK onshore workforce in addition to our employees working offshore on the UK continental shelf. Eligible employees may contribute a minimum of 2% of their salary to the scheme, and we contribute between 5% and 7.5% to participants' plans. In 2019 we contributed $4.7 million (2018: $4.6 million) to the plan.

In Norway we also have a defined contribution pension plan both for our Norwegian onshore workforce in addition to our employees working offshore on the Norwegian continental shelf from 2019. For onshore employees we contribute 5% of salary between 1 and 6 G and 8% of salary between 6 and 12 G. For offshore employees we contribute 3% of salary up to 7.1 G and 15% of salary between 7.1 and 12 G. (G represents the minimum base salary used in the Norwegian National Insurance scheme, and for 2019 is equivalent to approximately $12,000). In 2019 we contributed $8.2 million (2018: $6.5 million) to the plan in Norway.

Note 21 — Related Party Transactions

In the normal course of business we transact business with related parties conducted at arm's length.

Transactions with Seadrill;

At December 31, 2019, Seadrill is our largest shareholder, owning 15.6% of our common shares.
During the year ended December 31, 2019, we supplied Seadrill Limited and affiliates with services amounting to $3.3 million, mainly relating to the provision of offshore equipment and rental of warehouse space to Seadrill by our Aberdeen facility. This amount has been included in operating revenue

Transactions with C6 Technologies AS:

We own 50% of C6 Technologies AS, an oilfield technology company offering new solutions for well intervention and conveyance utilizing composite materials. We do not control this entity and as a result we have reported its financial results using the equity method of accounting since its creation in 2010.

In the year ended December 31, 2019 we have advanced $1.9 million as additional loan to C6. During 2019 we have supplied C6 with personnel and facility services amounting to $0.1 million. We have also rented office space from C6 for a cost of $0.1 million in 2019

Transactions with other associated companies

Our relationship with Rawabi is described in note 11 above. At December 31, 2019 we have a trading balance of $0.1 million owed to us by Rawabi.

Transactions with other related parties

The following are related parties, being companies in which Archer's largest shareholder, Seadrill and/or Hemen Holding Ltd have a significant interest:

- Frontline Management (Bermuda) Limited, ("Frontline")
- Seatankers Management Company Limited ("Seatankers")

Frontline and Seatankers provide management support and administrative services to us, and we have recorded fees of $0.3 million and $0.7 million for these services from these two companies respectively in the year ended December 31, 2019. These amounts are included in General and administrative expenses in the Consolidated statement of operations. As at December 31, 2019 have a balance owing to Seatankers $0.1 million in respect of these services.

Note 22 — Reporting and Geographical Segment Information

We manage and present our business under two reporting segments:

- Eastern Hemisphere
- Western Hemisphere

The Eastern Hemisphere segment contains Platform Drilling, Engineering, Wireline and Oiltools service divisions.

Western Hemisphere comprises our land drilling operations in Latin America, our Frac Valve business (divested in August 2019) in North America and our 28% interest in QES.

We report our corporate costs and assets separately and do not allocate them to the segments. Corporate costs include costs for the corporate management team, director's fees, corporate audit fees, stock-based compensation costs and other related costs which are centrally managed.

($ in millions)	FOR THE YEARS ENDED DECEMBER 31	
	2019	**2018**

Revenues from external customers		
Eastern Hemisphere	623.0	526.1
Western Hemisphere	305.6	363. 5
Total	**928.6**	**889.6**
Depreciation and amortization		
Eastern Hemisphere	18.7	23.0
Western Hemisphere	31.7	32.7
Total	**50.4**	**55.7**
Net Operating (loss)/income		
Eastern Hemisphere	44.6	22.5
Western Hemisphere	5.4	(6.2)
Corporate costs	(6.6)	(0.1)
Stock compensation costs	(0.9)	(0.7)
Operating income	**42.5**	**15.5**
Total financial items	(93.8)	(83.1)
Income taxes	3.6	14.6
Net loss	**(47.7)**	**(53.0)**
Capital expenditures – fixed assets		
Eastern Hemisphere	20.2	11.3
Western Hemisphere	21.3	13.1
Total	**41.5**	**24.5**

($ in millions)	**AS OF DECEMBER 31**	
	2019	**2018**
Total assets		
Eastern Hemisphere	578.4	515.2
Western Hemisphere	350.7	394.7
Corporate	0.9	0.6
Total	**930.0**	**910.6**

Goodwill

($ in millions)	**EASTERN HEMISPHERE**	**WESTERN HEMISPHERE**	**TOTAL**
Balance at December 31, 2017	**181.9**	**—**	**181.9**
Exchange rate fluctuations on goodwill measured in foreign currency	(9.3)	—	(9.3)
Balance at December 31, 2018	**172.6**	**—**	**172.6**
Exchange rate fluctuations on goodwill measured in foreign currency	(1.5)	—	(1.5)
Balance at December 31, 2019	**171.1**	**—**	**171.1**

Geographic information by country

	FOR THE YEARS ENDED DECEMBER 31	
($ in millions)	**2019**	**2018**
Revenue		
Norway	427.2	321.9
Argentina	287.3	314.2
United Kingdom	124.8	133.4
Other	89.3	120.1
Total	**928.6**	**889.6**

	AS OF DECEMBER 31	
($ in millions)	**2019**	**2018**
Property plant and equipment		
United States	1.1	1.0
Argentina	268.9	278.9
Norway	99.7	71.3
United Kingdom	3.0	39.7
Other	1.2	1.6
Total	**373.9**	**392.5**

Note 23 — Risk Management and Financial Instruments

Our functional and reporting currency is US Dollars. We have operations and assets in a number of countries worldwide, and receive revenues and incur expenditures in other currencies, causing our results from operations to be affected by fluctuations in currency exchange rates, primarily related to the Norwegian kroner and British pounds. We are also exposed to changes in interest rates on variable interest rate debt, and to the impact of changes in currency exchange rates on debt denominated in Norwegian kroner, Euros and British pounds. There is thus a risk currency and interest rate fluctuations will have a negative effect on our cash flows.

Interest rate risk management

Our exposure to interest rate risk relates mainly to our variable interest rate debt and balances of surplus funds placed with financial institutions, and this is managed through the use of interest rate swaps and other derivative arrangements. Our policy is to obtain the most favourable interest rate borrowings available without increasing our foreign currency exposure. Surplus funds are generally placed in fixed deposits with reputable financial institutions, yielding higher returns than those available on cash at bank. Such deposits generally have short-term maturities, in order to provide us with the flexibility to meet requirements for working capital and capital investments.

The extent to which we utilise interest rate swaps and other derivatives to manage our interest rate risk is determined by reference to our net debt exposure and our views regarding future interest rates. At December 31, 2019, we do not have any derivative financial agreements in place. At December 31, 2018 we had fixed our variable interest payable covering NOK 500 million of our NOK interest bearing loan using an interest rate swap, effectively fixing the interest rate on approximately 11% of the debt. We have not elected to hedge account for our current interest rate swaps, accordingly any changes in the fair values of the swap agreements are reported within our consolidated statement of operations. The total fair value gain relating to the interest rate swap in 2019 amounted to $0.3 million (2018: $0.3 million loss).

Foreign currency risk management

We are exposed to foreign currency exchange movements in both transactions that are denominated in currency other than USD, and in translating consolidated subsidiaries who do not have a functional currency of USD. Transaction losses are recognised in "Other financial items" on our Consolidated Statement of Operations in the period to which they relate. Translation differences are recognised as a component of equity. The total transaction loss relating to foreign exchange recognised in the Consolidated Statement of Operations in 2019 amounted to $15.6 million (2018: $18.6 million).

Credit risk management

We have financial assets, including cash and cash equivalents, trade receivables and other receivables. These assets expose us to credit risk arising from possible default by the counterparty. We consider the counterparties to be creditworthy financial institutions and do not expect any significant loss to result from non-performance by such counterparties. We, in the normal course of business, do not demand collateral.

Fair values

The carrying value and estimated fair value of our financial instruments are as follows:

($ in millions)	DECEMBER 31			
	2019		2018	
Assets / (Liabilities)	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE
Non-derivatives				
Cash and cash equivalents	31.4	31.4	20.2	20.2
Restricted cash	12.7	12.7	11.3	11.3
Accounts receivable	145.4	145.4	137.0	137.0
Accounts payable	(45.2)	(45.2)	(45.5)	(45.5)
Current portion of interest bearing debt	(548.1)	(548.1)	(4.7)	(4.7)
Long term interest bearing debt	(7.3)	(7.3)	(543.0)	(543.0)
Subordinated related party loan	(58.3)	(58.3)	(58.3)	(58.3)
Interest rate swap agreement	-	-	(0.3)	(0.3)

The above financial assets and liabilities are disclosed at fair value as follows:

($ in millions)	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING			
	DECEMBER 31 2019	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Assets:				
Cash and cash equivalents	31.4	31.4	—	—
Restricted cash	12.7	12.7	—	—
Accounts receivable	145.4	—	145.4	
Liabilities:				
Accounts payable	(45.2)	—	(45.2)	—
Current portion of interest bearing debt	(548.1)	—	(548.1)	—
Long term interest bearing debt	(7.3)	—	(7.3)	—
Subordinated related party loan	(58.3)	—	(58.3)	—

Level 1: Quoted prices in active markets for identical assets
Level 2: Significant other observable inputs
Level 3: Significant unobservable inputs

We used a variety of methods and assumptions, which are based on market conditions and risks existing at the time, to estimate the fair value of our financial instruments as of December 31, 2019, and 2018. For certain instruments, including cash and cash equivalents, receivables and accounts payable, it is assumed the carrying amount approximated fair value due to the short-term maturity of those instruments.

The fair value of the current portion of long-term debt is estimated to be equal to the carrying value, since it is repayable within twelve months.

The fair value of the long-term portion of floating rate debt is estimated to be equal to the carrying value since it bears variable interest rates. This debt is not freely tradable and cannot be purchased by us at prices other than the outstanding balance plus accrued interest.

The fair value of interest rate swaps are calculated using well-established independent market valuation techniques applied to contracted cash flows and relevant interest rates.

The fair value of the subordinated related party debt is considered not to be materially different from its carrying value as the fixed interest rate payable on the loan is considered a fair market rate as at December 31, 2019.

We consider the effect of Archer's own credit risk when estimating the fair value of our financial instruments.

Retained risk

We retain the risk, through self-insurance, for deductibles relating to physical damage insurance on our capital equipment. In the opinion of management, adequate provisions have been made in relation to such exposures, based on known and estimated losses.

Concentration of risk

The following table summarises revenues from our major customers as a percentage of total revenues from continuing operations (revenues in excess of 10 percent for the period):

CUSTOMER	2019	2018
Pan American Energy	20%	21%
Equinor	30%	21%
YPF SA	9%	11%
Customer <10%	41%	47%
Total	**100%**	**100%**

Note 24—Lease Obligations

Finance leases
We have entered into finance arrangements for the purchase of some items of equipment, mainly well plugs for use in our Oiltools division and some rental equipment in our Platform Drilling division. The leases are entered into under a frame agreement with the bank, and lease term is typically 5 years.

Assets leased under finance leases with a carrying value of $5.8 million are included in property plant and equipment and the liability is included in the interest bearing debt.

Operating leases
The company has historically leased some operating assets, office and warehouse facilities and office equipment under operating leases. The most significant lease agreements are related to offices in Norway and the United Kingdom. With effect from January 1, 2019 for material operating leases, we have recognised the relevant right of use assets and lease liabilities in our balance sheet. The leases have remaining lease terms of 1 to 15 years at December 31, 2019. Some operating leases include options to extend the leases for up to 2 years. We have not included these extentions in our right of use assets. We have sub-let unused office space, for which we received rental income of $1.4 million in the year ended December 31, 2019.

We have calculated an incremental borrowing rate, or IBR, for discounting each lease's cash-flows to arrive at an initial value for the lease liability and right of use asset. The IBR is calculated as a function of the following elements/considerations;

- Base rate – generally the inter-bank lending rate in the relevant jurisdictions,
- Credit spread – we estimate the effect of the lessee credit worthiness
- Country risk premium
- Inflation differential
- Contract term
- Security or collateral provided in the lease contract.

Significant judgment is required in estimating some of these elements. We apply a consistent methodology in estimating IBR for each lease.

We have elected not to recognise the right of use asset and lease liability for short term leases.

Supplemental information pertaining to the company's leasing activities for the year ended December 31, 2019 was as follows;

(In millions)	Twelve months ended December 31, 2019
Finance Lease costs	
Amortisation of right of use assets	$ 2.3
Interest on lease liabilities	0.5
Operating lease costs, interest on lease liability and amortisation of right of use assets	14.1
Rental income from sub-leases	(1.4)
Short term lease costs	14.6
Total Lease costs	30.1

Other information	
Cash paid for amounts included in measurement lease liabilities	
Operating cash flows from finance leases	-
Operating cash flows from operating leases	12.7
Financing cash flows from finance leases	1.7
Right of use assets obtained in exchange for new finance lease liabilities	5.4
Right of use assets obtained in exchange for new operating lease liabilities	0.9
Weighted average remaining lease term – finance leases	3.9 years
Weighted average remaining lease term – operating leases	8.3 years
Weighted average discount rate – finance leases	5%
Weighted average discount rate – operating leases	8%

Estimated future minimum rental payments are as follows:

($ In millions)	OPERATING LEASE OBLIGATIONS
YEAR	
2020	12.0
2021	9.8
2022	4.9
2023	4.2
2024	4.3
Thereafter	19.9
Total	**55.1**

Note 25 — Sale of AWC Frac Valves LLC

Our Frac Valves division was sold on August 31, 2018 to an unrelated party. Proceeds from this sale were $30 million. The division's net assets at disposal date were $22.5 million.

Note 26 — Subsequent Events

Coronavirus pandemic and dramatic fall in oil prices

At the date of this report, the industry is in the midst of an unprecedented combination of a global pandemic (COVID19) coupled with a dramatic fall in oil prices. Since the 31, December 2019, the Global Coronavirus pandemic has, and continues to have, a significant effect on our employees, operations, clients and suppliers. Travel restrictions and the scaling back of operations by our customers are likely to have an adverse effect on our 2020 operations and potentially beyond. We are responding to the challenges presented by the pandemic and the resulting dramatic fall in the oil price and we are currently implementing significant cost reduction initiatives in order to ensure the company secures positive cash flow from its operations in the shorter and longer term periods. The cost reduction initiatives includes redundancy of employees, temporary layoffs, suspension of contractors, renegotiations of supplier agreement, reduction of capex spending and also utilization of governmental support in the different locations we operate. Archer will closely monitor the situation going forward and implement further actions when appropriate. There remains significant uncertainty over the duration of reduced oil prices and the effects of the pandemic.

The Coronavirus pandemic constitutes a non-adjusting subsequent event. We shall continue to review the effects of the pandemic, and it is possible that it may result in impairments and other adverse charges impacts in 2020.

Refinancing agreement

As mentioned in Note 15 above, Archer has been in discussions with its lenders under the Multicurrency Term and Revolving Facility Agreement, hereunder the overdraft facilities, the lenders under the Hermes covered term loan and Seadrill Ju Newco Limited as subordinated lender under the Related party subordinated loan.

During April 2020, the Company signed amendment and restatement agreements in relation to the above mentioned facilities.

Multicurrency term and revolving credit facility

The amendments to the Multicurrency term and revolving credit facility agreement, hereunder the overdraft facilities, include:

- An initial decrease in the total commitments by $ 31.7 million to a total of USD 602.6 million, of which the overdraft facilities totals $ 22.3 million.
- Extension of the final maturity to 1st October 2023
- Quarterly repayments of $ 4 million commencing on 31 March 2021
- A cash sweep mechanism of excess liquidity above $ 90 million starting 31 December 2020
- Nominal EBITDA covenant replaced by a covenant on the ratio of net interest bearing debt to 12 months rolling EBITDA

Hermes covered term loan

The amendments to the Hermes covered term loan include:

- An initial repayment of EUR 10 million, to a new outstanding balance of EUR 11.4 million
- Extension of the final maturity until December 2022
- Quarterly instalments of EUR 1.4 million commencing on March 31, 2021
- Continued alignment to the covenants in the Multicurrency and revolving credit facility

Related party subordinated loan

The amendments to the Related party subordinated loan include:

- A debt forgiveness of 75% of the amount outstanding as at December 31, 2019 to a total of $13.1 million
- Extension of the final maturity to 1 April 2024
- Reduction of the conversion price from $2.083 to $0.4
- Extension of the conversion period to the new maturity date and permit up to 8 partly conversions

As used herein, unless otherwise required by the context, the terms "Archer", "Company", "we", "our" and "us" refer to Archer Limited and its consolidated subsidiaries. The Norwegian Code of Practice for Corporate Governance (the "Code") applies to us to the extent that the provisions of this Code do not conflict with the legislation of our national jurisdiction. The Code is a "comply or explain" guideline and we generally aim at complying with the recommendations of the Code. However, we will, to some extent, deviate from certain recommendations of the Code, partly due to different practice and principles under which Bermuda companies operate. The status of noncompliance and the explanations therefore is set out below.

The Code is available in its entirety at the Oslo Stock Exchange website (www.ose.no) and the website of The Norwegian Corporate Governance Board (www.nues.no).

Section 1 Implementation and reporting on corporate governance

Archer Limited is a limited liability company registered in Bermuda and listed on the Oslo Stock Exchange (Oslo Børs). The foundation for Archer's governance structure is Bermuda law as well as regulations for foreign companies listed on the Oslo Stock Exchange. In line with the directions given by the Board of Directors of Archer Limited, (the "Board"), Archer conducts its business on the basis of three fundamental values:

- Safety: We are committed individually and as a team, to protect the health and safety of its employees, customers and communities.
- Integrity: We are committed to maintaining an environment of trust, built upon honesty, ethical behaviour, respect and candour.
- Performance: We are committed to efficiently and effectively perform to all Archer standards and those of our customers.

The Board reviews the actual performance for all the values mentioned above and where applicable compares the key performance indicators against the plan regularly. With regard to integrity, Archer has implemented a code of conduct and a compliance and business ethics manual, which is available on its website (www.archerwell.com). It is Archer's policy that an employee who becomes aware of a possible violation of the company's policies regarding legal or ethical business conduct must report the violation. This includes possible violations of policies set forth in the code of conduct and business ethics manual, or other policies, manuals, or guides distributed by the company in addition to all applicable laws. On a quarterly basis the Audit Committee reviews reported potential violations of the company's code of conducts and discusses required actions, if any.

The Board has defined clear objectives, strategies, and risk profiles for our business activities and integrates considerations related to our stakeholders to create value and deliver results. The Board evaluates these objectives, strategies and risk profiles at regular intervals.

The Board has reviewed the overall performance of the company compared to its values and its corporate governance for the financial year 2019 in line with the Norwegian Code of Practice for Corporate Governance and confirms it is in compliance with the code, except for deviations which are highlighted in the detailed description of the main provisions of the code below:

Section 2 Business

In accordance with normal practice for Bermuda companies, our by-laws do not include a specific description of our business. According to the memorandum of association, no restrictions apply as to the purpose of the company and the reasons for its incorporation. As a Bermuda incorporated company, we have chosen to establish the constitutional framework in compliance with the normal practice of Bermuda and accordingly deviate from section 2 of the Code.

Section 3 Equity and dividends

In accordance with Bermuda law, the Board is authorised to repurchase treasury shares, and to issue any unissued shares within the limits of the authorised share capital. These authorities are neither limited to specific purposes nor to a specific period as recommended in section 3 of the Code. While we aim at providing competitive long-term return on the investments of our shareholders, we do not currently have a formal dividend policy.

The Board ensures that the company has a capital structure that is appropriate to the company's objective, strategy and risk profile.

Section 4 Equal treatment to shareholders and transactions with close associates

In accordance with the company laws of Bermuda, the shareholders can resolve an amount of authorised capital within which the Board may decide to increase the issued capital at its discretion without further shareholder approval. There is no legal framework providing for specific time-limited or purpose-limited authorisations to increase the share capital. The Board will propose to the shareholders that they consider and, if necessary, resolve to increase the authorised capital of the company that will allow the Board some flexibility to increase the number of issued shares without further shareholder approval. As such, we may deviate from the Code's recommendation in section 4 to limit such authorisation to a fraction of the issued share capital. Any increase of the authorised capital is, however, subject to approval by the shareholders by 2/3 majority of the votes cast. Neither our by-laws nor Bermuda company laws include regulation of pre-emptive rights for shareholders in connection with share capital increases.

Our by-laws provide for the Board in its sole discretion to direct a share issue to existing shareholders at par value or at a premium price. We are subject to the general principle of equal treatment of shareholders under the Norwegian Securities Trading Act section 5-14. The Board will, in connection with any future share issues, on a case-by-case basis, evaluate whether deviation from the principle of equal treatment is justified.

The Board will consider and determine on a case-by-case basis whether independent third party evaluations are required if entering into agreements with close associates in accordance with the Code section 4. The Board may decide, however, due to the specific agreement or transaction, to deviate from this recommendation if the interests of the shareholders in general are believed to be maintained in a satisfactory manner through other measures.

Other than related party transactions disclosed in note 21, the company did not enter into any transactions with its shareholders or closely associated entities.

Section 5 Shares and negotiability

We do not limit any party's ability to own, trade or vote for shares in the company. As such, we are in compliance with Section 5 of the Code.

Section 6 General meetings

As a Bermuda registered company, the general meetings of the company can be conducted through proxy voting. The VPS registered shareholders are holders of interests in the shares and thus represented by the VPS Registrar in the general meetings and not through their own physical presence. This is in line with the general practice of other non-Norwegian companies listed on Oslo Børs. We believe we comply in all other respects with the recommendations for general meetings as set out in of the Code.

Section 7 Nomination committee

We have not established a nomination committee as recommended by the Code section 7. In lieu of a nomination committee comprised of independent directors, the Board is responsible for identifying and recommending potential candidates to become Board members and recommending directors for appointment to board committees.

Section 8 Board of directors: composition and independence

The Chairman of our five-member Board has been elected by the Board and not by the shareholders as recommended in the Code. We are not fully in compliance with the Code with respect to independence of board members.

Section 9 The work of the board of directors

The Board sets an annual plan for the upcoming year in December which includes a review of strategy, objectives and their implementation, the review and approval of the annual budget and review and monitoring of our current year financial performance. The Board meets at least four times a year, with further meetings held as required to react to operational or strategic changes in the market and company circumstances. The Board receives frequent and relevant information to carry out its duties. It has delegated authority to the company's executive management by the means of a delegation of authority guideline.

The Board has established an Audit Committee, which has a formal charter and terms of reference approved by the Board. The Audit Committee, which, from September 21 2019, is comprised of directors Peter Sharpe and James O'Shaughnessy. The committee is responsible for ensuring Archer has an independent and effective external audit system. In addition we have an internal audit program. The Audit Committee supports the Board in the administration and exercise of its responsibility for supervisory oversight of financial reporting and internal control matters and to maintaining appropriate relationships with our auditors. Appointment of the auditor for audit services is approved at our annual general meeting and the Board is given authority to approve the fees to be paid to the auditor. Our auditor meets with the Audit Committee annually regarding the preparation of the annual financial statements and also to present their report on the internal control procedures. The Audit Committee holds separate discussions with our external auditor on a quarterly basis without executive management being present. The scope, resources, and the level of fees proposed by the external auditor in relation to our audit are approved by the Audit Committee.

The Board ensures through an internal check that members of the Board and executive personnel advise the company of any material interests that they may have in items to be considered by the Board.

Section 10 Risk management and internal control

The Board ensures that Archer follows guidelines to minimise the overall risk to the company and its shareholders and implements and complies with an adequate internal control framework. Archer's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

We have implemented clear lines of responsibility and limits of delegated authority. Comprehensive procedures provide for the appraisal, approval, control and review of expenditures. The senior management team meets with its geographic and divisional leadership on a regular basis to discuss particular issues affecting each region and business unit, including their key risks, health and safety statistics and legal and financial matters. We have also implemented a process to assess the company's projected financing needs and compliance with covenants under its financing arrangements. The results are presented to and discussed with the Board on a regular basis so adequate corrective measures can be taken if and when necessary.

Integrity is part of our core values and high ethical standards are paramount to achieve our business objectives. Our Code of Conduct describes Archer's commitment related to ethics for both personal and business matters. We comply with applicable laws and regulations and acts in an ethical and socially responsible manner. Our Code of Conduct applies to everyone working for Archer, including the members of the Board. The Code of Conduct is available at www.archerwell.com. Archer has implemented a dedicated ethics helpline that can be used by employees who wish to express concerns or seek advice regarding the legal and ethical conduct of our business.

We comply with the Code related to this section.

Section 11 Remuneration of the board of directors

There is no obligation to present the guidelines for remuneration of the Board of Directors to the shareholders of a Bermuda incorporated company. We will provide information to our shareholders regarding remuneration of the Board in compliance with United States generally accepted accounting principles ("US GAAP") but will not implement procedures that are not generally applied under Bermuda law. We therefore deviate from this part of section 11 of the Code. Until the appointment of Mr. Dag Skindlo as our Chief executive officer, the chairman of the board held the position of acting CEO under a separate service agreement. Other than this instance which has now ceased, there are no service contracts between the company and any of our directors providing for benefits upon termination of their service.

Section 12 Remuneration of executive personnel

There is no obligation to present the guidelines for remuneration of the executive management to the shareholders of a Bermuda incorporated company. We provide information to our shareholders regarding remuneration of the executive management in compliance with US GAAP, but will not implement procedures that are not generally applied under Bermuda law. In the view of the company there is sufficient transparency and simplicity in the remuneration structure and information provided through the annual report and financial statements are sufficient to keep shareholders adequately informed. We therefore deviate from this part of section 12 of the Code.

Section 13 Information and communications

The Board has established guidelines requiring interim financial reporting on a quarterly basis according to a financial calendar that is publically available. We hold a quarterly financial results conference call, which is accessible to all participants in the securities market. Timing and venue for such events are announced through public press releases. For specific events the Board requests us to hold investor meetings allowing for more detailed information. The information shared in such meetings is published on our website.

Section 14 Take-overs

The Board of Directors has adopted all recommendations in the code related to takeovers, which requires that all shareholders are given sufficient information and time to form an independent view of a potential takeover offer.

We comply with the Code related to this section.

Section 15 Auditor

The Board's Audit Committee is responsible for ensuring that the Group is subject to an independent and effective audit. Our independent registered public accounting firm (independent auditor) is independent in relation to Archer and is appointed by the general meeting of shareholders. The independent auditor's fee must be approved by the general meeting of shareholders.

The Audit Committee is approved by the Board and is responsible for ensuring that the company is subject to an independent and effective external audit. On an annual basis the independent auditor presents a plan for the Audit Committee for the execution of the independent auditor's work.

The independent auditor participates in all meetings of the Audit Committee which concern financial statement filings, and participates in reviewing the company's internal control procedures, including identified weaknesses and proposals for improvement.

When evaluating the independent auditor, emphasis is placed on the firm's competence, capacity, local and international availability, and the size of its fee. The Audit Committee evaluates and makes a recommendation to the Board, the corporate assembly and the general meeting of shareholders regarding the choice of independent auditor, and it is responsible for ensuring that the independent auditor meets the requirements in Norway.

The Audit Committee considers all reports from the independent auditor before they are considered by the Board. The Audit Committee holds regular meetings with the independent auditor without the company's management being present.

We comply with the Code related to this section.

Norwegian Accounting Act Section 3-3 b

In addition to the Norwegian Code of Practice for Corporate Governance, the Norwegian Accounting Act has set out additional requirements for corporate governance. We have established a set of guidelines related to internal control and corporate governance.

Risk Oversight

It is management's responsibility to manage risk and bring our most material risks to the attention of the Board. The Board has delegated to the Audit Committee the responsibility to discuss with management our major financial risk exposures and the steps management has taken to monitor and control those exposures, including our risk assessment and risk management. The Audit Committee reports as appropriate to the full Board. Each operational division head is responsible to report risks related to each segment to the Chief Executive Officer, who in turn reports to the Board.

Internal control

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with US GAAP. Our control environment is the foundation for our system of internal control over financial reporting and is an integral part of our Code of Conduct and Business Ethics for the Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, which sets the tone of our company. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with US GAAP, and that receipts and expenditures are being made only in accordance with authorisations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Audit committee

The Audit Committee currently consists of James O'Shaughnessy and Peter Sharpe. The Audit Committee assists our Board in fulfilling its oversight responsibility by overseeing and evaluating (i) the conduct of our accounting and financial reporting process and the integrity of our financial statements; (ii) the functioning of our systems of internal accounting and financial controls; (iii) the performance of our internal audit function and (iv) the engagement, compensation, performance, qualifications and independence of our independent auditors.

The independent auditors have unrestricted access and report directly to the Audit Committee. The Audit Committee meets privately with, and has unrestricted access to, the independent auditors and all of our personnel.

Compensation committee

The role of a Compensation Committee is currently performed by all members of the Board. The Board formulates and oversees the execution of our compensation strategies, including making recommendations with respect to compensation arrangements for senior management, directors and other key employees. The Board also administers our stock compensation plans.

Communications with the Board

Stockholders and other interested parties wishing to communicate with the Board or any individual director, including the Chairman, should send any communication to the Corporate Secretary, Archer Limited, Par-la-Ville Place 14 Par-la-Ville Road, Hamilton HM 08, Bermuda. Any such communication must state the number of shares beneficially owned by the stockholder making the communication. The Corporate Secretary will forward such communication to the director or directors to whom the communication is directed, unless the Corporate Secretary determines that the communication does not relate to the business or affairs of the company or the functioning or constitution of the Board or any of its committees, or it relates to routine or insignificant matters that do not warrant the attention of the Board, or is an advertisement or other commercial solicitation or communication, or is frivolous or offensive, or is otherwise not appropriate for delivery to directors.

Communication from the company

Information of relevance to our share price is communicated through our website, and includes information relating to results and economic development. Our policy is to comply with all applicable standards aimed at securing a good information flow.

We publish annual and quarterly reports on our website. We acknowledge the importance of providing shareholders, and the equity market in general, with correct and relevant information about us and our activities.

Other than the items mentioned above, we have not established any further guidelines regulating the work of the Board and its committees.

Appendix B – List of significant subsidiaries

Name	Country of Incorporation	Holding	Field of Activity
Archer (UK) Limited Abu Dhabi (Branch)	Abu Dhabi	100%	Drilling and well service operations
DLS-Archer Ltd. S.A.	Argentina	100%	Land drilling operations
DLS Argentina Ltd. Argentina (Branch)	Argentina	100%	Land drilling operations
DLA Argentina Fluidos S.A.	Argentina	100%	Provides fluids services
Archer Well Company (Australia) Pty Ltd	Australia	100%	Well service operations
Archer Well Company International Azerbaijan (Branch)	Azerbaijan	100%	Oiltools services
Archer Emerald (Bermuda) Limited	Bermuda	100%	Owns modular rig
Archer Topaz Limited	Bermuda	100%	Owns modular rig
Archer DLS Corporation Bolivia (Branch)	Bolivia	100%	Land drilling operations
Archer do Brasil Serviços de Petróleo Ltda	Brasil	100%	Guarantor company
BCH Energy do Brasil Serviços de Petróleo Ltda	Brasil	100%	Drilling service operations
Archer DLS Corporation	BVI	100%	Holding company
DLS Argentina Limited	BVI	100%	Land drilling operations
Archer BCH (Canada) Ltd	Canada	100%	Oiltools services and land rigs owner
Archer Oil Tools AS Congo (Branch)	Congo	100%	Oiltools services
Archer Offshore Denmark AS	Denmark	100%	Well service operations
Archer (UK) Limited France (Branch)	France	100%	Oiltools services
Archer Services Limited	Hong Kong	100%	Provides international personnel services
PT Archer	Indonesia	95%	Well service operations
Archer Well Company (M) SDN BHD	Malaysia	100%	Well service operations
Archer AS	Norway	100%	Drilling and well service operations
Archer Consulting AS	Norway	100%	Provides engineering and crew services
Archer Norge AS	Norway	100%	Drilling and well service management
Archer Oil Tools AS	Norway	100%	Oiltools services
Bergen Technology Center AS	Norway	100%	Research and development
C6 Technologies AS	Norway	50%	Research and development
Rawabi Archer Company	Saudi Arabia	50%	Oiltools services
Archer Well Company (Singapore) Pte Ltd	Singapore	100%	Well service operations
Archer (UK) Limited Jebel Ali Free Zone (Branch)	UAE	100%	Well service operations
Archer (UK) Limited	UK	100%	Drilling and well service operations
Archer Assets UK Limited	UK	100%	Holding company
Archer Consulting Resources Limited	UK	100%	Drilling service operations
Archer Well Company International Ltd	UK	100%	Well service operations
Limay Drilling Rigs Ltd	UK	100%	Land rig owning company
Archer Holdco LLC	USA	100%	Holding company
Archer Oiltools LLC	USA	100%	Oiltools services
Archer Well Company Inc.	USA	100%	Holding and management company
Quintana Energy Services Inc. *	USA	28%	Drilling and well service operations

* see note 12 for explanation of Quintana Energy Services Inc.

Appendix C – Supplemental parent company only information Archer Limited

Company Statement of operations

($ in millions, except share and per share data)	**YEAR ENDED DECEMBER 31**	
	2019	**2018**
Revenues		
Operating revenues	1.6	1.5
Total revenues	**1.6**	**1.5**
Expenses		
General and administrative expenses	2.4	1.5
Total expenses	**2.4**	**1.5**
Operating loss	**(0.8)**	**-**
Financial items		
Interest expenses	(3.6)	(20.9)
Interest from subsidiaries	40.2	57.9
Share of loss from subsidiaries	(80.2)	(84.8)
Other financial items	(3.3)	(5.2)
Total financial items	**(46.9)**	**(53.0)**
Loss before income taxes	**(47.7)**	**(53.0)**
Income taxes	-	-
Net (loss)/income	**(47.7)**	**(53.0)**
Basic loss per share ($)	**(0.32)**	**(0.36)**
Diluted loss per share ($)	**(0.32)**	**(0.36)**
Weighted average number of shares outstanding (in millions)		
Basic	147.6	147.4
Diluted	147.6	147.4

See accompanying notes that are an integral part of these Financial Statements.

Appendix C – Supplemental parent company only information Archer Limited

Company Statement of comprehensive loss

	YEAR ENDED DECEMBER 31	
($ in millions)	**2019**	**2018**
Net loss	**(47.7)**	**(53.0)**
Other comprehensive income/(loss)		
Change in residual pension liability	-	0.7
Foreign currency translation differences	8.0	(1.6)
Other comprehensive Income/(loss), net	**8.0**	**(0.9)**
Total comprehensive loss	**(39.7)**	**(53.9)**

Company Statement of accumulated other comprehensive income/(loss)

($ in millions)	PENSION-UNRECOGNISED (LOSS)/GAIN	CHANGE IN UNREALISED FOREIGN EXCHANGE DIFFERENCES	TOTAL
Balance at December 31, 2017	(0.7)	**(0.5)**	**(1.2)**
Change in residual pension liability	0.7	-	0.7
Foreign currency translation differences	-	(1.6)	(1.6)
Balance at December 31, 2018	**-**	**(2.1)**	**(2.1)**
Foreign currency translation differences	-	8.0	8.0
Balance at December 31, 2019	**-**	**5.9**	**5.9**

See accompanying notes that are an integral part of these Financial Statements.

Appendix C – Supplemental parent company only information Archer Limited

Company balance sheet

($ in millions)	DECEMBER 31	
	2019	**2018**
ASSETS **Current assets**		
Cash and cash equivalents	0.1	0.1
Amounts due from subsidiaries	6.9	1.1
Other current assets	-	2.1
Total current assets	7.0	3.3
Noncurrent assets		
Amounts due from subsidiaries, long term	838.9	631.2
Other noncurrent assets	0.6	-
Total noncurrent assets	**839.5**	**631.2**
Total assets	**846.5**	**634.5**
LIABILITIES AND SHAREHOLDERS' EQUITY **Current liabilities**		
Current portion of long term debt	515.0	-
Other current liabilities	2.2	1.9
Total current liabilities	**517.2**	**1.9**
Noncurrent liabilities		
Accumulated losses of unconsolidated subsidiaries in excess of investment	159.3	423.6
Long-term loans from subsidiaries	3.3	3.5
Related party subordinated loan	58.3	58.3
Total noncurrent liabilities	**220.9**	**485.4**
Shareholders' equity		
Common shares of par value $0.01 per share: 1.0 billion shares authorised: 148,050,298 outstanding shares at December 31, 2019 (December 31, 2018: 147,462,012 shares of $0.01 par value)	1.5	1.5
Additional paid in capital	927.6	926.7
Accumulated deficit	(1,566.7)	(1,519.0)
Accumulated other comprehensive income/(loss)	5.9	(2.1)
Contributed surplus	740.1	740.1
Total shareholders' equity	**108.4**	**147.2**
Total liabilities and shareholders' equity	**846.5**	**634.5**

See accompanying notes that are an integral part of these Financial Statements.

Appendix C – Supplemental parent company only information Archer Limited

Company Statement of cash flows

($ in millions)	YEAR ENDED DECEMBER 31	
	2019	**2018**
Cash Flows from Operating Activities		
Net loss	**(47.7)**	**(53.0)**
Adjustment to reconcile net loss to net cash used in operating activities:		
Share of loss of subsidiaries	80.2	84.8
Share-based compensation expenses	0.2	0.5
Amortization of debt fees	0.2	0.6
Interest income applied to loan balances	(41.7)	(58.6)
Foreign currency loss	4.3	7.2
Changes in operating assets and liabilities, net of acquisitions		
(Decrease)/increase in amounts owed by subsidiaries	(3.9)	0.4
Change in other operating assets and liabilities, net	8.0	2.0
Net cash used in operating activities	**(0.4)**	**(16.1)**
Cash Flows from Investing Activities		
Net cash (advanced to)/repaid by subsidiaries	-	197.4
Net cash provided by/(used in) investing activities	**-**	**197.4**
Cash Flows from Financing Activities		
Proceeds from loans from subsidiary	0.4	2.0
Repayment of external debt	-	(183.2)
Net cash used in financing activities	**0.4**	**(181.2)**
Effect of exchange rate changes on cash and cash equivalents	-	-
Net increase in cash and cash equivalents, including restricted cash	**-**	**0.1**
Cash and cash equivalents, including restricted cash at beginning of the year	0.1	-
Cash and cash equivalents, including restricted cash at the end of the year	**0.1**	**0.1**
Interest paid	2.6	19.6

See accompanying notes that are an integral part of these Financial Statements.

The above amounts of $197.4 and $183.2 million in 2018, represent internal restructuring, involving the transfer of our main facility from/to our subsidiaries.

Company Statement of changes in shareholders' equity

Appendix C – Supplemental parent company only information Archer Limited

($ in millions)	SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)	CONTRIBUTED SURPLUS	TOTAL SHAREHOLDERS' EQUITY
Balance at December 31, 2017	**1.5**	**926.0**	**(1,466.0)**	**(1.2)**	**740.1**	**200.4**
Foreign currency translation differences	-	-	-	(1.6)	-	(1.6)
Change in residual pension liability	-	-	-	0.7	-	0.7
Share-based compensation	-	0.7	-	-	-	0.7
Net income	-	-	(53.0)	-	-	(53.0)
Balance at December 31, 2018	**1.5**	**926.7**	**(1,519.0)**	**(2.1)**	**740.1**	**147.2**
Foreign currency translation differences	-	-	-	8.0	-	8.0
Share-based compensation	-	0.9	-	-	-	0.9
Net loss	-	-	(47.7)	-	-	(47.7)
Balance at December 31, 2019	**1.5**	**927.6**	**(1,566.7)**	**5.9**	**740.1**	**108.4**

See accompanying notes that are an integral part of these Financial Statements.

Appendix C – Supplemental parent company only information

Archer Limited

Note 1 — General Information

Archer Limited is a holding company. As used herein, unless otherwise required by the context, the terms “Archer”, “company”, “we”, “our” and words of similar import refer to Archer Limited. The use herein of such terms as Group, organisation, we, us, our and its, or references to specific entities, is not intended to be a precise description of corporate relationships.

We were incorporated on August 31, 2007.

Our shares are traded on the Oslo Børs under the symbol “ARCHER.OL.” Dividends, when declared, will be denominated in NOK.

Basis of presentation

We are a limited company that conducts substantially all of our business through our subsidiaries. This supplemental information has been presented on a “parent company only” basis to comply with Norwegian regulations.

The financial statements are presented in accordance with generally accepted accounting principles in the United States of America (US GAAP). The amounts are presented in United States Dollars, USD, or $ rounded to the nearest million, unless otherwise stated.

Going concern

At the date of this report, the industry is in the midst of an unprecedented combination of a global pandemic (Covid-19) coupled with a dramatic fall in oil prices. The Board of Directors and the management team of Archer have been working hard to assess and understand the impacts of this development on the business, and to identify mitigating factors that will ensure the company is able to withstand the current market conditions. Archer has a solid liquidity position following the refinancing of the company in April 2020 and does not face any significant loan maturities until the fourth quarter 2023. Due to the recent downturn in the market, management has implemented a plan to reduce costs and postpone investments, and will take further action if necessary, in order to safeguard liquidity for continued operation. The Directors and management team consider lasting low oil prices and lower oil production to constitute an uncertainty for the industry in general as well as for the company’s ability to continue as a going concern.

The Board and management will continue to closely monitor the situation and is prepared to execute on management plans described above to ensure the long-term strength of the company. Based on the company's liquidity position and forecasted cash flows from operations, the Board confirms that the conditions for continued operation as a going concern are present for the company and the annual financial statement for 2019 has been prepared under this presumption

The Board believes the annual report provides a fair presentation of the Group’s assets and debt, financial position and financial performance.

Note 2 — Accounting Policies

The accounting policies set out below has been applied consistently to all periods in these financial statements.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Future events and their effects cannot be predicted with certainty. Actual results could differ from those estimates.

Foreign currencies

As of December 31, 2019, several of our subsidiaries have a functional currency in USD. For subsidiaries that have functional currencies other than USD, we use the current method of translation whereby the statements of operations are translated using the average exchange rate for the month and the assets and liabilities are translated using the year-end exchange rate. Foreign currency translation gains or losses are recorded as a separate component of other comprehensive income in shareholders’ equity.

Transactions in foreign currencies during the year are translated into functional currency at the specific entity at the rates of exchange in effect on the date of the transaction. Foreign currency assets and liabilities are translated using rates of exchange at the balance sheet date. Foreign currency transaction gains or losses are included in the consolidated statements of operations.

Appendix C – Supplemental parent company only information

Archer Limited

Current and noncurrent classification

Assets and liabilities are classified as current assets and current liabilities respectively, if their maturity is within one year of the balance sheet date. Assets and liabilities not maturing within one year are classified as long term.

Cash and cash equivalents

Cash and cash equivalents consist of cash, demand deposits and highly liquid financial instruments purchased with an original maturity of three months or less, and exclude restricted cash.

Capitalised debt fees

Loan related costs, including debt arrangement fees, incurred on the initial arrangement of loan finance and any subsequent amendments, are capitalised and amortised over the term of the related loan using the straight-line method, which approximates the interest method. Amortization of loan related costs are included in interest expense. Recurring loan costs, such as commitment fees, are recognised in the income statement within other financial items in the period in which they are incurred.

Investments in subsidiaries

Our investments in subsidiaries are presented under the equity method of accounting. Under the equity method of accounting, the investment is initially recorded at cost and is subsequently adjusted to reflect our share of the net profit or loss of the subsidiary. Distributions received from the investee reduce the carrying amount of the investment.

If our share in results of our equity investments exceeds their carrying value then we either reduce the carrying value of our other investment in those entities, in the form of loans receivable from subsidiaries or disclose as a separate line in the balance sheet, within liabilities, under the heading Accumulated losses of unconsolidated subsidiaries in excess of investment.

Income taxes

We are a Bermuda company. Under current Bermuda law, we are not required to pay taxes in Bermuda on either income or capital gains. We have received written assurance from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, we will be exempted from taxation until year 2035.

The impact of changes to income tax rates or tax law is recognised in periods when the change is enacted.

Earnings per share, or EPS

Basic earnings per share are calculated based on the income for the period available to common stockholders divided by the weighted average number of shares outstanding for basic EPS for the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments, which includes share options.

Deferred charges

Loan-related costs, including debt arrangement fees, incurred on the initial arrangement are capitalised and amortised over the term of the related loan using the straight-line method, which approximates the interest method. Amortisation of loan-related costs is included in interest expense. Subsequent loan costs in respect of existing loans, such as commitment fees, are recognised in the Consolidated Statement of Operations within "Interest expense" in the period in which they are incurred. Unamortised loan costs are presented as a reduction of the carrying value of the related debt.

Financial Instruments

From time to time, we enter into interest rate swaps in order to manage floating interest rates on debt. Interest rate swap agreements are recorded at fair value in the balance sheet when applicable. A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognised asset or liability may be designated as a cash flow hedge.

When the interest swap qualifies for hedge accounting, we formally designate the swap instrument as a hedge of cash flows to be paid on the underlying loan, and in so far as the hedge is effective, the change in the fair value of the swap each period are recognised in the "Accumulated other comprehensive loss" line of the Balance Sheet. Changes in fair value of any ineffective portion of the hedges are charged to the Statement of Operations in "Other financial items." Changes in the fair value of interest rate swaps are otherwise recorded as a gain or loss under "Other financial items" in the Statement of Operations where those hedges are not designated as cash flow hedges.

Related party transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also related if they are subject to common control or common significant influence.

Recently issued accounting pronouncements

We adopted the following accounting standard updates ("ASUs") in the year:

ASU 2016-02 - Leases (also 2019-01, 2019-10, 2019-11. 2019-20)

On January 1, 2019, we adopted ASC Topic 842 which revises accounting for leases. Under the new guidance we are required to recognize right-of-use assets and lease liabilities on our balance sheet, for substantially all leases. The new standard required lessees and lessors to classify most leases as either finance or operating using principles similar to previous lease accounting. The income statement recognition is also similar to previous leas accounting.

We have elected the following transition practical expedients, which were applied consistently to all leases that commenced before January 1, 2018:

1. We did not reassess whether any expired or existing contracts are or contain leases.
2. We did not reassess the lease classification for any expired or existing leases.
3. We did not reassess initial direct costs for any existing leases.
4. We did use hindsight in determining the lease term and in assessing impairment of the right-of-use assets.

The adoption of this standard resulted in the recognition of operating lease right of use assets and corresponding lease liability of $50.8 million.

Prior to January 1, 2019 we recognized lease expenses in accordance with the then-existing USGAAP ("Prior GAAP"). Because both ASC 842 and prior GAAP generally recognise operating lease expenses on a straight line basis over the term of the lease arrangement, there was no material differences between the timing and amount of lease expenses recognised under the two accounting methodologies, however the expenses, under the new methodology represent interest on the lease liability and amortisation of the right of use assets.

We have also elected, as an accounting policy not to apply the provisions of ASC 842 to short term leases (leases with an original term of twelve months or less).

ASU 2016-13 - Financial Instruments - Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which revises guidance for the accounting for credit losses on financial instruments within its scope. The new standard introduces an approach, based on expected losses, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The guidance is effective for annual and interim periods beginning after December 15, 2018. Entities are required to apply the standard's provisions as a cumulative-effect adjustment to retained earnings as at the beginning of the first reporting period in which the guidance is adopted.

We adopted the standard effective January 1, 2019. Our customers are international oil companies, national oil companies and large independent oil companies. Our financial assets are primarily held with counter parties with high credit standing and we have historically had a low incidence of bad debt expense. Therefore, the adoption of this guidance did not significantly affect our consolidated financial statements and related disclosures.

ASU 2017-12 Derivatives and Hedging

In July 2017, the FASB issued ASU 2017-12 which is intended to align the results of the cash flow and fair value hedge accounting with the risk management activities of an entity. The amendments expand the hedge accounting for both financial and non-financial risk components and they reduce the operational burden of applying hedge accounting. The amendment enables the financial statements to reflect accurately the intent and outcome of an entity's hedging strategies. The standard is effective for fiscal years beginning after December 15, 2018. The adoption of the standard has not had any material impact on our financial statements as we do not currently apply hedge accounting to any of our derivatives.
Accounting Standards Updates, not yet adopted

A***SU 2018-13 Fair Value Measurement - Changes to the Disclosure Requirements for Fair Value Measurement***

In August 2018, the FASB issued ASU 2019-13, Fair Value Measurement (Topic 820): which is intended to streamline the disclosure requirements on fair value measurements. Disclosures such as the amounts and reasons for transfers between Level 1 and Level 2 fair value hierarchy, and the valuation process for Level 3 fair value measurements were removed. Additional disclosures such as disclosure about changes in unrealised gains and losses included in other comprehensive income for level 3 fair value measurements, the range and weighted average of significant unobservable inputs used for level 3 fair value measurements are required to be reported by public entities. The accounting update is effective January 1 2020 and the adoption of the accounting standard is not expected to have any material impact on our consolidated financial statements.

Accounting standard updates issued by the FASB

The FASB have issued several further updates not included above. We do not currently expect any of these updates to materially affect our consolidated financial statements and related disclosures either on transition or in future periods.

Note 3 — Other Financial Items

	YEARS ENDED DECEMBER 31	
($ in millions)	**2019**	**2018**
Foreign exchange loss	(4.2)	(7.2)
Other items	0.9	2.0
Total other financial items, net	**(3.3)**	**(5.2)**

Other financial items represent predominantly foreign exchange gains on an intercompany loan balance denominated in Norwegian Kroner.

Note 4 — Earnings Per share, or EPS

The components for the calculation of basic EPS and diluted EPS and the resulting values are as follows:

	NET LOSS ***($ in millions)***	WEIGHTED AVERAGE SHARES OUTSTANDING	LOSS PER SHARE (IN $)
2018			
Basic loss per share from continuing operations	(53.0)	147,428,948	(0.36)
Effect of dilutive options *	—	-	—
Diluted gain per share	(53.0)	147,428,948	(0.36)

	NET LOSS ***($ in millions)***	WEIGHTED AVERAGE SHARES OUTSTANDING	LOSS PER SHARE (IN $)
2019			
Basic loss per share from continuing operations	(47.7)	147,607,069	(0.32)
Effect of dilutive options *	—	-	—
Diluted gain per share	(47.7)	147, 607,069	(0.32)

* Share-based compensation of approximately 939,941 and 269,753 shares were excluded from the computation of diluted earnings per share for the year ended 2018 and 2019 respectively, as the effect would have been anti-dilutive due to the net loss for the period.

Appendix C – Supplemental parent company only information
Archer Limited

Note 5 — Amounts due from subsidiaries

Balances reported under Amounts due from subsidiaries comprise the following:

($ in millions)	DECEMBER 31	
	2019	**2018**
Due from Archer Norge As	6.9	1.1
Total amounts due from subsidiaries	**6.9**	**1.1**

Note 6 — Investments in Subsidiaries

We had the following direct participation in investments:

COMPANY NAME	**PERCENT HOLDING AS OF DECEMBER 31**	
	2019	**2018**
Archer Services Limited	100%	100%
Archer Assets UK Limited	100%	100%
Archer Well Company (Singapore) Pte. Ltd.	100%	100%
Archer Emerald (Bermuda) Limited	100%	100%
Archer Topaz Limited	100%	100%

In addition to equity investments we have the following long term loans receivable from our subsidiaries

($ in millions)	DECEMBER 31	
	2019	**2018**
Archer Norge AS	838.5	587.5
Archer Emerald (Bermuda) Limited	0.2	34.0
Archer Topaz Limited	0.2	9.7
Total amounts due from subsidiaries	**838.9**	**631.2**

Note 7 — Other Current Liabilities

Our other current liabilities comprise the following:

($ in millions)	DECEMBER 31	
	2019	**2018**
Accounts payable	0.3	-
Accrued expenses	1.9	1.9
Total other current liabilities	**2.2**	**1.9**

Note 8 — External multicurrency term and revolving facility

In 2018 the drawing under the Facility was transferred to our subsidiaries Archer Assets UK Ltd. and Archer Norge AS.

In 2019, as part of renegotiation of the term loan which was due to mature in September 2020, the loan was reconsolidated in the ledgers of Archer Limited.

The total amount available under the Multicurrency term and revolving credit facility (the "Facility") is $610.8 million, split between $372.8 million under a term loan and $238.0 million in a revolving facility. A total of $23.4 million of the Facility was carved out during the second quarter of 2018 to two overdraft facilities, each of $ 11.7 million. A total of $515.0 million was drawn as at December 31, 2019 under the Facility and $95.8 million remained available. The Facility is secured by pledges over shares in material subsidiaries, assignment over intercompany debt and guarantees issued by the material subsidiaries.

At September 30, 2019 the facility was reclassified as short term finance as the loan was due to mature by September, 30 2020. We have, since the balance sheet date agreed a refinancing arrangement with our lenders which is detailed in our subsequent events note 26.

The interest payable on the Facility is the aggregate of 1, 3 or 6 month NIBOR, LIBOR or EURIBOR, plus between 2.25% and 4.35% per annum, depending on the ratio of the net interest bearing debt to EBITDA. In the event our total consolidated net interest bearing debt, after adjustments of the related party subordinated convertible loan amount, exceeds 6.0x the last twelve months Nominal EBITDA (EBITDA before exceptional items) measured at December 31, 2019 and/or August 31, 2020, the loan will accrue an additional 1% PIK margin for 2019 and/or part of 2020. In March 2020 quarterly instalments of $10 million commence and the final maturity date of the Facility is September 30, 2020.

The Facility contains certain financial covenants, including, among others:

- Archer will ensure that the 12 months rolling Nominal EBITDA (adjusted for certain fx effects) of the Group is at least $65 million in 2019 and $85 million in 2020.
- Archer shall ensure that the 12 months rolling EBITDA (as reported) for the Group is positive.
- Archer shall maintain $30 million in freely available cash (including undrawn committed credit lines).
- Archer shall ensure that the capital expenditures shall not exceed $40 million per year.

The Facility contains events of default which include payment defaults, breach of financial covenants, breach of other obligations, breach of representations and warranties, insolvency, illegality, unenforceability, curtailment of business, claims against an obligor's assets, appropriation of an obligor's assets, failure to maintain exchange listing, material adverse effect, repudiation and material litigation. In addition there are cross default clauses in the event of the obligor defaulting on other issued debt.

As of December 31, 2019, the company is in compliance with all covenants as agreed with its lenders under this Facility.

We completed the refinancing of this facility with our lenders in 2020, as described in our Subsequent events Note 16

Note 9 — Related Party Subordinated Loan

The related party subordinated loan comprises a convertible loan with face value $45 million from our main shareholder Seadrill Limited. The carrying value includes interest which is accrued up to maturity date of September 2021.

We have renegotiated the terms of this loan in 2020 as described in our subsequent events note 16

Note 10 — Commitments and Contingencies

Guarantees

Archer Limited guarantees for the BACS (Bankers automated clearing system) facilities established by UK subsidiaries for the equivalent amount of $9.2 million, (2018: $ 9.7 million). Furthermore, there are letters of credit and performance guarantees issued by our banks for a total of $2.8 million (2018: $ 2.8 million) for which Archer Limited is a guarantor.

Note 11 Legal Proceedings
From time to time, we are involved in litigations, disputes and other legal proceedings arising in the normal course of their business.

We insure against the risks arising from these legal proceedings to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. If there is a claim, dispute or pending litigation in which we believe a negative outcome is probable and our loss can be reasonably estimated, we record a liability for the expected loss but at this time any such expected loss are immaterial to our financial condition and results of operations. In addition we have certain claims, disputes and pending litigation in which we do not believe a negative outcome is probable or for which the loss cannot be reasonably estimated.

Note 12 Share Capital

	DECEMBER 31			
	2019		2018	
	All shares are common shares of $0.01 par value each		*All shares are common shares of $0.01 par value each*	
	SHARES	**$ MILLION**	**SHARES**	**$ MILLION**
Authorized share capital	1,000,000,000	10.0	1,000,000,000	10.0
Issued, outstanding and fully paid share capital	148,050,298	1.5	147,462,012	1.5

Archer shares are traded on the Oslo Stock exchange under the symbol “ARCHER.OL.”

The Board have indicated that no dividend will be distributed in respect of the results for the financial year 2019.

Note 13 Share Option Plans

We have granted share options to our senior management and directors that provide the management with the right to subscribe for new shares. The options are not transferable and may be withdrawn upon termination of employment under certain conditions. Options granted under the scheme will vest at a date determined by the Board of Directors. The options granted under the plan vest over a period of one to five years.

As of December 31, 2019, Archer has two active option programs.

The following summarises share option transactions related to the Archer programs in 2019 and 2018:

	2019		2018	
	OPTIONS	**WEIGHTED AVERAGE EXERCISE PRICE - NOK**	**OPTIONS**	**WEIGHTED AVERAGE EXERCISE PRICE - NOK**
Outstanding at beginning of year	**1,469,433**	**30.00**	**1,532,433**	**31.28**
Forfeited/expired	(819,432)	42.32	(63,000)	66.16
Outstanding at end of year	**650,001**	**14.45**	**1,469,433**	**30.00**
Exercisable at end of year	450.001	16.43	669,433	53.89

No income was received in 2019 as a result of share options being exercised (2018: $ nil).

Options issued under the 2014 Program may be exercised up to March 1, 2020. The exercise price is between NOK 62.00 and NOK 71.80 per share, and may be exercised one third each year beginning twelve months after they were granted. At December 31, 2019, all 50,001 options outstanding under the 2014 Program were exercisable.

Options issued under the 2018 Program may be exercised up to March 1, 2022. The exercise price is NOK 10.00 per share, and may be exercised one third each year beginning twelve months after March 1, 2019. At December 31, 2019, 600,000 options were outstanding under the 2018 Program and 400,000 of the options were exercisable.

The weighted average remaining contractual life of outstanding options is 24 months (2018: 34 months).

We pay the employers' national insurance contributions related to the options, while the option holders will be charged for the individual income taxes.

When stock options are exercised we usually settle the obligation by issuing new shares.

Valuation:

We use the Black-Scholes pricing model to value stock options granted. The fair value of options granted is determined based on the expected term, risk-free interest rate, dividend yield and expected volatility. The expected term is based on historical information of past employee behaviour regarding exercises and forfeiture of options. The risk-free interest rate assumption is based upon the published Norwegian treasury yield curve in effect at the time of grant for instruments with a similar life. The dividend yield assumption is based on history and expectation of dividend pay-outs.

We use a blended volatility for the volatility assumption, to reflect the expectation of how the share price will react to the future cyclicality of our industry. The blended volatility is calculated using two components. The first component is derived from volatility computed from historical data for a period of time approximately equal to the expected term of the stock option, starting from the date of grant. The second component is the implied volatility derived from our "at-the-money" long-term call options. The two components are equally weighted to create a blended volatility.

We did not grant any new options in 2019 or 2018.

Restricted Stock units

The Board has from time to time granted restricted stock units, or RSU's, to members of Archer's management team. The RSUs typically vest, 33% on each of the dates falling approximately one, two and three years after the grant date. At December 31, 2019 a total of 4,157,364 RSUs was outstanding.

RSU awards do not receive dividends or carry voting rights during the performance period. The fair value of the restricted stock award is the quoted market price of Archer's stock on the date of grant.

The following table summarizes information about all restricted stock transactions:

	2019		2018	
	RSU's	**Weighted average grant date fair value NOK**	**RSU's**	**Weighted average grant date fair value NOK**
Unvested at beginning of year	**2,266,400**	7.21	**333,750**	5.56
Granted	2,980,750	3.91	2,128,900	7.22
Vested/released	(724,952)		(181,000)	
Forfeited	(364,834)		(15,250)	
Unvested at end of year	**4,157,364**	4.97	**2,266,400**	7.21

Accounting for share-based compensation

The fair value of the share options and RSUs granted is recognised as personnel expenses. During 2019, NOK 8.2 million ($0.9 million) has been expensed in our Statement of Operations ($0.7 million in 2018).

As of December 31, 2019, total unrecognised compensation costs related to all unvested share-based awards totalled NOK 10.4 million ($1.2 million), which is expected to be recognised as expenses in 2020, 2021 2022 and 2023 of, NOK 5.6 million ($0.6 million) NOK 2.9 million ($0.3million), NOK 1.3 million ($0.2 million) and NOK 0.5 million ($0.1 million), respectively.

Note 14 — Related Party Transactions

In the normal course of business we transact business with related parties conducted at arm's length.

The following are related parties, being companies in which Archer's largest shareholder, Seadrill and/or Hemen Holding Ltd have a significant interest: Hemen Holding Ltd is a Cyprus holding company is indirectly controlled by trusts established by Mr. John Fredriksen, for the benefit of his immediate family. Mr Fredriksen is the largest shareholder of Seadrill, which is our largest shareholder.

- Frontline Management (Bermuda) Limited, ("Frontline")
- Seatankers Management Company Limited ("Seatankers")

Frontline and Seatankers provide management support and administrative services to us, and we have recorded fees of $0.3 million and $0.7 million for these services from these two companies respectively in the year ended December 31, 2019. These amounts are included in General and administrative expenses in the Consolidated statement of operations. As at December 31, 2019 have a balance owing to Seatankers $0.1 million in respect of these services.

Note 15 — Risk Management and Financial Instruments

Our reporting currency is US Dollars. Our subsidiaries operate in a number of countries worldwide and receive revenues and incur expenditures in other currencies causing their results from operations to be affected by fluctuations in currency exchange rates, primarily relative to the Norwegian Krone and British Pounds. We also are exposed to changes in interest rates on variable interest rate debt and to the impact of changes in currency exchange rates on debt denominated in Norwegian Krone, Euros and British Pounds. There is, thus, a risk currency and interest rate fluctuations will have a negative effect on our cash flows.

Interest rate risk management

Our exposure to interest rate risk relates mainly to our variable interest rate debt and balances of surplus funds placed with financial institutions, and this is managed through the use of interest rate swaps and other derivative arrangements. Our policy is to obtain the most favourable interest rate borrowings available without increasing our foreign currency exposure. Surplus funds are generally placed in fixed deposits with reputable financial institutions, yielding higher returns than are available on cash at bank. Such deposits generally have short-term maturities, in order to provide us with flexibility to meet requirements for working capital and capital investments.

The extent to which we utilise interest rate swaps and other derivatives to manage our interest rate risk is determined by reference to our net debt exposure and our views regarding future interest rates. At December 31, 2019, we have no current interest swap agreements.

Foreign currency risk management

We are exposed to foreign currency exchange movements in both transactions that are denominated in currency other than USD, and in translating subsidiaries who do not have a functional currency of USD, which is our reporting currency. Transaction losses are recognised in "Other financial items" in the period to which they relate. Translation differences are recognised as a component of equity. The total transaction loss relating to foreign exchange movements recognised in our Statement of Operations in 2019 amounted to $4.2 million compared to $7.2 million in 2018.

Credit risk management

We have financial assets, including cash and cash equivalents and other receivables. These assets expose us to credit risk arising from possible default by the counterparty. We consider the counterparties to be creditworthy financial institutions and do not expect any significant loss to result from non-performance by such counterparties. We, in the normal course of business, do not demand collateral.

Fair values

The carrying value and estimated fair value of our financial instruments are as follows:

	DECEMBER 31			
($ in millions)	2019		2018	
	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE
Cash and cash equivalents	0.1	0.1	0.1	0.1
Interest rate debt (classified as short term)	(515.0)	(515.0)	-	-
Related party subordinated loan	(58.3)	(58.3)	(58.3)	(58.3)

The above financial liabilities are measured at fair value on a recurring basis as follows:

		FAIR VALUE MEASUREMENTS AT REPORTING DATE USING		
		QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS	SIGNIFICANT OTHER OBSERVABLE INPUTS	SIGNIFICANT UNOBSERVABLE INPUTS
($ in millions)	DECEMBER 31 2019	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Related party subordinated loan	58.3		53.8	

Level 1: Quoted prices in active markets for identical assets
Level 2: Significant other observable inputs
Level 3: Significant unobservable inputs

We have used a variety of methods and assumptions, which are based on market conditions and risks existing at the time, to estimate the fair value of our financial instruments as of December 31, 2019, and 2018. For certain instruments, including cash and cash equivalents, it is assumed that the carrying amount approximated fair value due to the short-term maturity of those instruments.

The fair values of interest rate swaps are calculated using well-established independent market valuation techniques applied to contracted cash flows and relevant NIBOR interest rates.

The fair value of the subordinated related party debt is considered not to be materially different from its carrying value as the fixed interest rate payable on the loan is considered a fair market rate as at December 31, 2019.

We consider the effect of Archer's own credit risk when estimating the fair value of our financial instruments.

Note 16 — Subsequent Events

Coronavirus pandemic and dramatic fall in oil prices

At the date of this report, the industry is in the midst of an unprecedented combination of a global pandemic (COVID19) coupled with a dramatic fall in oil prices. Since the 31, December 2019, the Global Coronavirus pandemic has, and continues to have, a significant effect on our employees, operations, clients and suppliers. Travel restrictions and the scaling back of operations by our customers are likely to have an adverse effect on our 2020 operations and potentially beyond. We are responding to the challenges presented by the pandemic and the resulting dramatic fall in the oil price and we are currently implementing significant cost reduction initiatives in order to ensure the company secures positive cash flow from its operations in the shorter and longer term periods. The cost reduction initiatives includes redundancy of employees, temporary layoffs, suspension of contractors, renegotiations of supplier agreement, reduction of capex spending and also utilization of governmental support in the different locations we operate. Archer will closely monitor the situation going forward and implement further actions when appropriate. There remains significant uncertainty over the duration of reduced oil prices and the effects of the pandemic.

The Coronavirus pandemic constitutes a non-adjusting subsequent event. We shall continue to review the effects of the pandemic, and it is possible that it may result in impairments and other adverse charges impacts 2020.

Refinancing agreement

As mentioned in Note 15 above, Archer has been in discussions with its lenders under the Multicurrency Term and Revolving Facility Agreement, hereunder the overdraft facilities, the lenders under the Hermes covered term loan and Seadrill Ju Newco Limited as subordinated lender under the Related party subordinated loan.

During April 2020, the Company signed amendment and restatement agreements in relation to the above mentioned facilities.

Multicurrency term and revolving credit facility

The amendments to the Multicurrency term and revolving credit facility agreement, hereunder the overdraft facilities, include:

- An initial decrease in the total commitments by $ 31.7 million to a total of USD 602.6 million, of which the overdraft facilities totals $ 22.3 million.
- Extension of the final maturity to 1st October 2023
- Quarterly repayments of $ 4 million commencing on 31 March 2021
- A cash sweep mechanism of excess liquidity above $ 90 million starting 31 December 2020
- Nominal EBITDA covenant replaced by a covenant on the ratio of net interest bearing debt to 12 months rolling EBITDA

Hermes covered term loan

The amendments to the Hermes covered term loan include:

- An initial repayment of EUR 10 million, to a new outstanding balance of EUR 11.4 million
- Extension of the final maturity until December 2022
- Quarterly instalments of EUR 1.4 million commencing on March 31, 2021
- Continued alignment to the covenants in the Multicurrency and revolving credit facility

Related party subordinated loan

The amendments to the Related party subordinated loan include:

- A debt forgiveness of 75% of the amount outstanding as at December 31, 2019 to a total of $13.1 million
- Extension of the final maturity to 1 April 2024
- Reduction of the conversion price from $2.083 to $0.4
- Extension of the conversion period to the new maturity date and permit up to 8 partly conversions